



Reach Out and Read, Inc.

Financial Statements

June 30, 2017



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Kevin P. Martin & Associates, P.C.

**Reach Out and Read, Inc.**

Index

June 30, 2017

**Independent Auditors' Report**

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

**Financial Statements:**

Statements of Financial Position as of June 30, 2017 with Comparative Totals as of June 30, 2016	1
Statements of Activities for the Year Ended June 30, 2017 with Comparative Totals for the Year Ended June 30, 2016	2
Statements of Cash Flows for the Year Ended June 30, 2017 with Comparative Totals for the Year Ended June 30, 2016	3
Statements of Functional Expenses for the Year Ended June 30, 2017 with Comparative Totals for the Year Ended June 30, 2016	4
Notes to Financial Statements	5 - 16



## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Reach Out and Read, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2017, 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.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2017. 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, 2016, 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 11, 2018, 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.

*Wm. P. Martini & Chantre P.C.*

April 11, 2018



**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, 2017, 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 11, 2018.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Nunir P. Mantua & Associates, P.C.*

April 11, 2018

**Reach Out and Read, Inc.**

Statements of Financial Position

As of June 30, 2017

With Comparative Totals as of June 30, 2016

	2017	2016
<b>Current Assets</b>		
Operating cash	\$ 4,572,988	\$ 4,280,299
Cash reserves, current	835,193	647,075
Total cash and cash equivalents	5,408,181	4,927,374
Accounts receivable, net	9,733	40,405
Grants receivable, net	1,240,510	1,193,603
Prepaid expenses	21,728	31,176
Total current assets	6,680,152	6,192,558
<b>Property and Equipment</b>		
Furniture and fixtures	23,410	23,410
Equipment	21,889	21,889
Construction in process	26,700	-
Subtotal	71,999	45,299
Less: accumulated depreciation	(29,745)	(21,515)
Total property and equipment, net	42,254	23,784
<b>Other Assets</b>		
Cash reserves, long-term	111,477	111,477
Security deposits	-	3,145
Total other assets	111,477	114,622
<b>Total Assets</b>	\$ 6,833,883	\$ 6,330,964
<b>Current Liabilities</b>		
Accounts payable	\$ 81,083	\$ 474,492
Accrued expenses	917,034	265,377
Grants payable	75,584	90,468
Deferred revenue	147	22,941
Total current liabilities	1,073,848	853,278
<b>Net Assets</b>		
Unrestricted		
Board restricted	816,133	627,116
Undesignated	1,318,351	1,625,447
Total unrestricted	2,134,484	2,252,563
Temporarily restricted	3,514,074	3,113,646
Permanently restricted	111,477	111,477
Total net assets	5,760,035	5,477,686
<b>Total Liabilities and Net Assets</b>	\$ 6,833,883	\$ 6,330,964

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, 2017

With Comparative Totals for the Year Ended June 30, 2016

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Support and Revenue</b>					
Contributions	\$ 1,659,727	\$ 4,614,243	\$ -	\$ 6,273,970	\$ 4,877,603
Donated goods and services	4,167,236	-	-	4,167,236	3,042,563
Special events	2,055	-	-	2,055	37,105
Government grants	717,217	1,300,000	-	2,017,217	4,016,371
Foundation grants	-	-	-	-	5,959
Other	293	-	-	293	8,713
Interest	1,950	-	-	1,950	1,274
<b>Total Support and Revenue</b>	<u>6,548,478</u>	<u>5,914,243</u>	<u>-</u>	<u>12,462,721</u>	<u>11,989,588</u>
Net assets released from restrictions	5,513,815	(5,513,815)	-	-	-
<b>Total</b>	<u>12,062,293</u>	<u>400,428</u>	<u>-</u>	<u>12,462,721</u>	<u>11,989,588</u>
<b>Expenses</b>					
Program	9,943,380	-	-	9,943,380	9,241,247
Management and general	843,017	-	-	843,017	615,666
Fundraising	1,393,975	-	-	1,393,975	966,093
<b>Total Expenses</b>	<u>12,180,372</u>	<u>-</u>	<u>-</u>	<u>12,180,372</u>	<u>10,823,006</u>
<b>Change in Net Assets</b>	(118,079)	400,428	-	282,349	1,166,582
<b>Net Assets - Beginning of Year</b>	<u>2,252,563</u>	<u>3,113,646</u>	<u>111,477</u>	<u>5,477,686</u>	<u>4,311,104</u>
<b>Net Assets - End of Year</b>	<u>\$ 2,134,484</u>	<u>\$ 3,514,074</u>	<u>\$ 111,477</u>	<u>\$ 5,760,035</u>	<u>\$ 5,477,686</u>

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

**Reach Out and Read, Inc.**

## Statements of Cash Flows

For the Year Ended June 30, 2017  
With Comparative Totals for the Year Ended June 30, 2016

<b>Cash Flows from Operating Activities</b>	<u>2017</u>	<u>2016</u>
Change in net assets	\$ 282,349	\$ 1,166,582
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,230	10,033
Decrease (increase) in assets:		
Accounts receivable	30,672	(12,601)
Grants receivable	(46,907)	338,879
Prepaid expenses	9,448	(2,660)
Security deposits	3,145	(3,047)
Increase (decrease) in liabilities:		
Grants payable	(14,884)	3,222
Accounts payable	(393,409)	(262,254)
Accrued expenses	651,657	16,820
Deferred revenue	<u>(22,794)</u>	<u>(97,981)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>507,507</u>	<u>1,156,993</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	<u>(26,700)</u>	<u>-</u>
<b>Net Cash Used in Investing Activities</b>	<u>(26,700)</u>	<u>-</u>
<b>Net Increase in Cash and Cash Equivalents</b>	480,807	1,156,993
<b>Cash and Cash Equivalents - Beginning</b>	<u>4,927,374</u>	<u>3,770,381</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 5,408,181</u>	<u>\$ 4,927,374</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Disposal of fully depreciated fixed assets	<u>\$ -</u>	<u>\$ 15,075</u>

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, 2017

With Comparative Totals for the Year Ended June 30, 2016

	Total Program	Management and General	Fundraising	2017 Total	2016 Total
Salaries	\$ 1,838,829	325,812	669,659	\$ 2,834,300	\$ 2,548,517
Payroll taxes and benefits	468,573	69,918	181,123	719,614	635,255
Total employee compensation	2,307,402	395,730	850,782	3,553,914	3,183,772
Books	6,381,344	-	308	6,381,652	5,445,590
Coalitions	53,949	-	-	53,949	-
Conferences and travel	215,945	12,538	41,614	270,097	164,903
Consulting	705,470	178,042	289,848	1,173,360	1,186,647
Depreciation	-	8,230	-	8,230	10,033
Equipment rental and maintenance	16,999	48,958	3,712	69,669	88,230
Literacy materials	45,599	-	-	45,599	108,653
Other expenses	60	26,959	28,051	55,070	50,083
Communications and marketing	14,300	5,274	87,279	106,853	88,508
Other occupancy expenses	818	14,280	130	15,228	9,965
Payroll and HR administration	90,758	13,782	31,642	136,182	129,327
Postage and delivery	3,488	1,790	16,367	21,645	8,214
Printing and copying	3,610	535	21,093	25,238	10,681
Professional fees	-	19,948	-	19,948	32,971
Recruitment	1,213	37,625	10,148	48,986	2,812
Rent	12,103	59,781	-	71,884	108,345
Research and evaluation	18,000	-	-	18,000	16,380
Staff development, education and training	3,615	6,313	1,418	11,346	1,304
Supplies	19,637	6,361	6,158	32,156	39,981
Telephone and internet	26,430	6,871	5,425	38,726	36,084
Training	22,640	-	-	22,640	100,523
<b>Total Functional Expenses</b>	\$ 9,943,380	\$ 843,017	\$ 1,393,975	\$ 12,180,372	\$ 10,823,006

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

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(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, 2017, approximately 1.4 million books were distributed to approximately 1,850 sites. The goal is to ensure that the approximately 6,000 approved sites in the U.S. have access to high-quality, low-cost children's books.

***(b) Basis of Presentation***

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

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(1) Summary of Significant Accounting Policies - continued**

***(c) Standards of Accounting and Reporting***

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

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

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

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

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

***(d) Cash and Cash Equivalents***

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

The Organization maintains its cash balances at a financial institution located in Massachusetts. The cash balances are secured by the Federal Deposit Insurance Corporation (FDIC). At times these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. The Organization did not maintain cash balances in excess of FDIC limits in any other financial institution as of June 30, 2017.

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(1) Summary of Significant Accounting Policies - continued**

***(e) Revenue Recognition***

The Organization earns revenue as follows:

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

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

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

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

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

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

During the year ended June 30, 2017, the Organization derived approximately 83% of its total revenue from corporations and individual grants and contributions, 16% from governmental agencies and 1% from all other sources. All revenue is recorded at the estimated net realizable amounts.

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(1) Summary of Significant Accounting Policies - continued**

***(f) Accounts Receivable***

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2017, management has determined any allowance would be immaterial.

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

***(g) Grants Receivable***

Conditional grants are not recognized in the financial statements until the conditions are substantially met. Unconditional grants that are expected to be collected within one year are recorded at net realizable value. Unconditional grants that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, grants with payments due in future periods are restricted to use after the due date.

Unconditional grants are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual grants. As of June 30, 2017, management has determined any allowance would be immaterial.

All grants receivable as of June 30, 2017 are expected to be collected in fiscal year 2018. In addition, credit risk with respect to grants receivable is considered low as a significant portion of the grants receivable are from foundations which have been in operation for multiple years and have reported significant assets.

As of June 30, 2017, the Organization's grants receivable consisted of approximately 93% due from corporations and individuals and 7% due from governmental agencies.

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(1) Summary of Significant Accounting Policies - continued**

***(h) Fixed Assets***

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

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

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

***(i) Fundraising***

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

***(j) Special Events***

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

***(k) Functional Allocation of Expenses***

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

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

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(1) Summary of Significant Accounting Policies - continued**

***(l) Use of Estimates***

In preparing the Organization's financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***(m) Income Taxes***

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

***(n) Construction in Process***

Construction in process is recorded on the cost method and is not depreciated until placed into service.

***(o) Summarized Financial Information for 2016***

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, 2016, from which the summarized information was derived.

***(p) Reclassifications***

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

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(2) Donated Goods and Services**

Donated goods and services for the year ended June 30, 2017 were as follows:

Pro-bono outside services:	
Professional services	\$ 44,731
Gifts in kind:	
Books and literacy materials	<u>4,122,505</u>
Total revenue recognized	<u>\$ 4,167,236</u>

Donated books from one corporation accounts for 87% of the donated goods and services received during the year ended June 30, 2017.

**(3) Operating Lease Commitments**

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

2018	\$ 83,840
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Rent, common area and property tax expense for the year ended June 30, 2017 was \$71,884.

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

2018	\$ 10,829
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**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(4) Commitments and Contingencies**

**(a) *Insperty***

The Organization has a co-employee relationship with Insperty, whereby all employees are compensated by Insperty. The Organization pays Insperty for 100% of gross salaries, as well as 25.35% of gross salaries for taxes, benefits and related fees. As of June 30, 2017, \$300,039 is owed to Insperty and is included in accrued expenses on the accompanying statement of financial position.

The total salaries, fringe benefits and administrative service fees paid under this agreement was approximately \$3,690,096 for the year ended June 30, 2017.

**(b) *Governmental Agencies***

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

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

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

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(5) Restricted Net Assets**

*(a) Board Restricted Net Assets*

The Board of Directors has designated \$816,133 of accumulated earnings to be used for future budgeted program activities.

*(b) Temporarily Restricted Net Assets*

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2017, temporarily restricted net assets are restricted for programmatic purposes.

*(c) Permanently Restricted Net Assets*

Permanently restricted net assets represent donations with stipulations that they be invested to provide a permanent source of income to defray programmatic costs in accordance with the Organization's endowment spending policy. The permanently restricted donations are being held in money market accounts in order to preserve their fair value. These amounts have been classified as long-term cash reserves on the statement of financial position. Consistent with donor restrictions unrealized gains and losses on these investments follow the treatment of investment income. Accordingly, unrealized gains and losses are reported in the statement of activities as increases or decreases in temporarily restricted net assets. Any excess unrealized losses over corpus are classified as decreases in unrestricted net assets. No excess losses over corpus have occurred as of June 30, 2017.

As of June 30, 2017, permanently restricted net assets totaled \$111,477. An immaterial amount of interest was earned and released on these permanent restricted net assets during the year ended June 30, 2017.

**(6) Related Party Transactions**

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

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(6) Related Party Transactions - continued**

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

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

**(7) Endowment**

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

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

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

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

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

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(7) Endowment - continued**

***(b) Appropriation of Endowment Assets for Expenditure***

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

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

***(c) Return Objectives and Risk Parameters***

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

***(d) Strategies Employed for Achieving Investment Objectives***

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

***(e) Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies may result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of June 30, 2017.

***(f) Composition and Reconciliation of Endowment Funds***

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

**Reach Out and Read, Inc.**

Notes to Financial Statements

June 30, 2017

**(8) Subsequent Events**

The Organization has performed an evaluation of subsequent events through April 11, 2018, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in these financial statements.