KPM

# Reach Out and Read, Inc.

## Financial Statements

June 30, 2019

Reach Out & Read®

Kevin P. Martin & Associates, P.C

**Reach Out and Read, Inc.**

Index

June 30, 2019

# 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. (the Organization), which comprise the statement of financial position as of June 30, 2019, 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, 2019, 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.

**Emphasis of Matter**

As discussed in Note 1(o) to the financial statements, the Organization has adopted ASU No. 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

**Report on Summarized Comparative Information**

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2018. 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, 2018, 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 February 18, 2020, 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 solely 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 the effectiveness of the Organization's 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.

Braintree, Massachusetts
February 18, 2020

**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. (the Organization), which comprise the statement of financial position as of June 30, 2019, 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 February 18, 2020.

**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.

Braintree, Massachusetts
February 18, 2020

**Reach Out and Read, Inc.**

Statement of Financial Position

As of June 30, 2019
With Comparative Totals as of June 30, 2018

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Operating cash | $ | 2,433,522 | $ | 3,718,565 |
| Cash reserves | | 852,565 | | 839,924 |
| Total cash and cash equivalents | | 3,286,087 | | 4,558,489 |
| Accounts receivable | | 48,333 | | 2,985 |
| Grants receivable, current | | 2,268,776 | | 2,334,130 |
| Prepaid expenses | | 148,321 | | 13,085 |
| Total current assets | | 5,751,517 | | 6,908,689 |
| **Property and Equipment** | | | | |
| Furniture and fixtures | | 23,410 | | 23,410 |
| Computer equipment and software | | 322,298 | | 274,928 |
| Construction in process | | 92,500 | | - |
| Total property and equipment | | 438,208 | | 298,338 |
| Less: accumulated depreciation | | (77,398) | | (50,627) |
| Total property and equipment, net | | 360,810 | | 247,711 |
| **Other Assets** | | | | |
| Cash restricted for endowment | | 111,477 | | 111,477 |
| Grants receivable, net of current portion | | 123,724 | | 250,000 |
| Total other assets | | 235,201 | | 361,477 |
| **Total Assets** | $ | 6,347,528 | $ | 7,517,877 |
| **Current Liabilities** | | | | |
| Accounts payable | $ | 111,118 | $ | 159,262 |
| Accrued expenses | | 455,608 | | 356,367 |
| Grants payable | | 18,575 | | 23,096 |
| Total current liabilities | | 585,301 | | 538,725 |
| **Net Assets** | | | | |
| Net assets without donor restrictions | | | | |
| Board designated | | 1,250,000 | | 1,000,000 |
| Undesignated | | 1,031,180 | | 1,666,851 |
| Total net assets without donor restrictions | | 2,281,180 | | 2,666,851 |
| Net assets with donor restrictions | | 3,481,047 | | 4,312,301 |
| Total net assets | | 5,762,227 | | 6,979,152 |
| **Total Liabilities and Net Assets** | $ | 6,347,528 | $ | 7,517,877 |

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

**Reach Out and Read, Inc.**

Statement of Activities

For the Year Ended June 30, 2019
With Comparative Totals for the Year Ended June 30, 2018

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | 2019 Total | 2018 Total |
|---|---|---|---|---|
| **Support and Revenue** | | | | |
| Contributions | $ 1,528,758 | $ 4,446,496 | $ 5,975,254 | $ 7,291,792 |
| Donated goods and services | 2,722,567 | - | 2,722,567 | 4,702,043 |
| Government grants | 2,884,005 | - | 2,884,005 | 2,720,885 |
| Other | 6,507 | - | 6,507 | - |
| Interest | 15,756 | - | 15,756 | 4,650 |
| **Total Support and Revenue** | 7,157,593 | 4,446,496 | 11,604,089 | 14,719,370 |
| Net assets released from restrictions | 5,277,750 | (5,277,750) | - | - |
| **Total** | 12,435,343 | (831,254) | 11,604,089 | 14,719,370 |
| **Expenses** | | | | |
| Program | 10,222,899 | - | 10,222,899 | 11,242,621 |
| Management and general | 1,169,373 | - | 1,169,373 | 1,034,786 |
| Fundraising | 1,428,742 | - | 1,428,742 | 1,222,846 |
| **Total Expenses** | 12,821,014 | - | 12,821,014 | 13,500,253 |
| **Change in Net Assets** | (385,671) | (831,254) | (1,216,925) | 1,219,117 |
| **Net Assets - Beginning of Year** | 2,666,851 | 4,312,301 | 6,979,152 | 5,760,035 |
| **Net Assets - End of Year** | $ 2,281,180 | $ 3,481,047 | $ 5,762,227 | $ 6,979,152 |

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

**Reach Out and Read, Inc.**

Statement of Cash Flows

For the Year Ended June 30, 2019
With Comparative Totals for the Year Ended June 30, 2018

| **Cash Flows from Operating Activities** | 2019 | 2018 |
|---|---|---|
| Change in net assets | $ (1,216,925) | $ 1,219,117 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 31,574 | 20,882 |
| Decrease (increase) in assets: | | |
| Accounts receivable | (45,348) | 6,748 |
| Grants receivable | 191,630 | (1,343,620) |
| Prepaid expenses | (135,236) | 8,643 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (48,144) | 78,179 |
| Accrued expenses | 99,241 | (560,667) |
| Grants payable | (4,521) | (52,488) |
| Deferred revenue | - | (147) |
| **Net Cash Used in Operating Activities** | (1,127,729) | (623,353) |
| **Cash Flows from Investing Activities** | | |
| Purchase of property and equipment | (144,673) | (226,339) |
| **Net Cash Used in Investing Activities** | (144,673) | (226,339) |
| **Net Decrease in Cash and Cash Equivalents** | (1,272,402) | (849,692) |
| **Cash and Cash Equivalents - Beginning** | 4,558,489 | 5,408,181 |
| **Cash and Cash Equivalents - Ending** | $ 3,286,087 | $ 4,558,489 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Cash paid during the year for interest | $ - | $ - |
| **Supplement Data for Noncash Investing and Financing Activities** | | |
| Disposal of fully depreciated fixed assets | $ 4,803 | $ - |

**Reach Out and Read, Inc.**

Statement of Functional Expenses

For the Year Ended June 30, 2019
With Comparative Totals for the Year Ended June 30, 2018

| | Program | Management and General | Fundraising | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Salaries | $ 2,702,617 | $ 390,990 | $ 835,506 | $ 3,929,113 | $ 3,246,030 |
| Payroll taxes and benefits | 716,098 | 86,772 | 145,038 | 947,908 | 817,165 |
| Total employee compensation | 3,418,715 | 477,762 | 980,544 | 4,877,021 | 4,063,195 |
| Books | 5,139,949 | - | - | 5,139,949 | 7,141,310 |
| Coalitions | 187,402 | - | - | 187,402 | 172,050 |
| Conferences and travel | 220,932 | 24,370 | 53,308 | 298,610 | 311,088 |
| Consulting | 572,174 | 366,094 | 130,574 | 1,068,842 | 935,006 |
| Depreciation | - | 31,574 | - | 31,574 | 20,882 |
| Equipment rental and maintenance | 28,800 | 96,026 | 19,013 | 143,839 | 103,576 |
| Fiscal sponsorship fees | - | - | - | - | 13,060 |
| Literacy materials | 63,075 | - | - | 63,075 | 37,616 |
| Other communication and outreach | 13,359 | 200 | 62,536 | 76,095 | 66,708 |
| Other expenses | 23,608 | 48,239 | 41,090 | 112,937 | 80,875 |
| Other occupancy | 1,303 | 651 | 651 | 2,605 | 2,059 |
| Payroll and human resources fees | 120,648 | 16,933 | 25,722 | 163,303 | 74,477 |
| Postage and delivery | 9,118 | 4,024 | 32,414 | 45,556 | 41,506 |
| Printing | 24,171 | - | 14,657 | 38,828 | 37,696 |
| Professional fees | - | 24,247 | - | 24,247 | 29,454 |
| Recruiting | 21,085 | 31,854 | 28,872 | 81,811 | 28,581 |
| Rent | 47,859 | 23,930 | 23,930 | 95,719 | 82,491 |
| Research and evaluation | 185,947 | - | - | 185,947 | 34,527 |
| Staff development, education and training | 6,177 | 503 | 2,296 | 8,976 | 24,473 |
| Supplies | 13,511 | 8,563 | 3,721 | 25,795 | 22,556 |
| Telephone and internet | 30,884 | 13,701 | 8,712 | 53,297 | 54,682 |
| Training | 92,777 | - | - | 92,777 | 120,058 |
| Utilities | 1,405 | 702 | 702 | 2,809 | 2,327 |
| **Total Functional Expenses** | $ 10,222,899 | $ 1,169,373 | $ 1,428,742 | $ 12,821,014 | $ 13,500,253 |

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

## (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 (U.S. 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 is the only national early literacy organization working directly with pediatric care providers to train them to model the value to parents of reading aloud to their children every day. The Organization is driven by the mission to give young children a foundation for success by incorporating books into pediatric care and encouraging families to read aloud together. When families read aloud to their young children, they can give them a better start to life.

The program begins in infancy and continues through age five, with a special emphasis on children growing up in low-income communities. Pediatricians and other pediatric clinicians who are involved in the organization share brand-new, age and language appropriate books and literacy advice with children and parents at each well-child visit up to the age of 5. The effectiveness of the Organization's model is recognized by the American Academy of Pediatrics in a policy statement that recommends early literacy promotion as an essential component of pediatric care. The program is both cost-effective, and evidence-based: research shows that our program results in more frequent reading at home, accelerated vocabulary and critical brain development.

Through generous support and revenue from individual contributions, corporate foundations, donated goods and services and government grants, the Organization provides books and training to approved program sites in all 50 states and Washington, DC. Approved program sites are medical facilities that have demonstrated the ability to implement the model and have signed a letter of agreement with the Organization. Funding sources are generated by program sites, regional affiliates, and the national center. During the year ending June 30, 2019, approximately 7.4 million books were distributed to approximately 6,400 sites.

### *(b) Basis of Presentation*

The statement of activities reports all changes in net assets, including changes in net assets without donor restrictions, 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 two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) 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>Net Assets Without Donor Restrictions</u> - Net assets that are not subject to donor imposed restrictions. Net assets without donor restrictions consist of assets and contributions available for the support of operations. These 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 net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

<u>Net Assets With Donor Restrictions</u> - Net assets that 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Net assets with donor restrictions also includes 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, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

The Organization maintains its cash balances at financial institutions 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. Cash and deposit balances with BNY Mellon and Bank of America amounted to $1,517,095 and $2,064,268, respectively, as of June 30, 2019. The Organization did not maintain cash balances in excess of FDIC limits in any other financial institution as of June 30, 2019.

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

### *(e) Revenue Recognition*

The Organization earns revenue as follows:

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

Contributions - Contributions are recorded upon receipt or pledge as net assets without donor restrictions or net assets with donor restrictions 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 net assets without donor restrictions unless the donor has restricted the donated asset 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 Organization. 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.

During the year ended June 30, 2019, the Organization derived approximately 75% of its total revenue from corporations and individual grants and contributions and 25% from governmental agencies. 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, 2019, 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.

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

### *(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, 2019, management has determined any allowance would be immaterial.

As of June 30, 2019, the Organization's grants receivable consisted of approximately 74% due from corporations and individuals and 26% due from governmental agencies.

### *(h) Property and Equipment*

Property and equipment 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 |
| Computer equipment and software | 3-10 years |

Construction in process is recorded on the cost method. Construction in process is not depreciated until it is placed into service. Construction in progress consists of rebranding and website costs that have not been placed into service.

### *(i) Fundraising*

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

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

### *(j) 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.

### *(k) Use of Estimates*

In preparing the Organization's financial statements in conformity with U.S. 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.

### *(l) 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) of the IRC.

### *(m) Summarized Financial Information for 2018*

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

### *(n) Reclassifications*

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

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

### *(o) Recent Accounting Standard Adopted*

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. As a result, the Organization has adopted this ASU as of and for the year ended June 30, 2019 with retrospective application for the 2018 comparative financial statements. As a result, the investment expenses are netted against investment return on the statement of activities. In addition, the Organization changed its presentation of its net asset classes and expanded the footnote disclosures as required by the ASU, with no effect on previously reported change in net assets. Other than these reclassifications, the adoption of ASU 2016-14 did not have a material impact on the Organization's financial position, results of activities or cash flows.

## (2) Grant Receivable

Grants receivable consist of the following as of June 30, 2019:

| | Gross Promise | Allowance | Net Promise | Unamortized Discount | Total |
|---|---|---|---|---|---|
| Receivable less than 1 year | $ 2,268,776 | $ - | $ 2,268,776 | $ - | $ 2,268,776 |
| Receivable in 1 to 5 years | 123,724 | - | 123,724 | - | 123,724 |
| | $ 2,392,500 | $ - | $ 2,392,500 | $ - | $ 2,392,500 |

As of June 30, 2019, management has determined any discount on grants receivable due in more than one year would be immaterial. 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.

## (3) Donated Goods and Services

Donated goods and services for the year ended June 30, 2019 were as follows:

| | | |
|---|---|---|
| Pro-bono outside services: | | |
| Professional services | $ | 26,614 |
| Gifts in kind: | | |
| Books and literacy materials | | 2,695,953 |
| Total revenue recognized | $ | 2,722,567 |

Donated books and literacy materials from one corporation accounted for 74% of the donated goods and services received during the year ended June 30, 2019.

## (4) Operating Lease Commitments

The Organization occupies office space under non-cancelable, operating lease agreements with expiration dates through fiscal year 2021. 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:

| | | |
|---|---|---|
| 2020 | $ | 90,730 |
| 2021 | | 92,375 |

Rent, common area and property tax expense for the year ended June 30, 2019 was $95,719.

The Organization also leases equipment for use within their office locations. The Organization's current lease agreements go through fiscal year 2022. Future minimum lease payments are as follows:

| | | |
|---|---|---|
| 2020 | $ | 21,066 |
| 2021 | | 16,489 |
| 2022 | | 1,680 |

## (5) Commitments and Contingencies

### *(a) Insperity*

The Organization has 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, 2019, $350,697 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 were $5,040,324 for the year ended June 30, 2019.

## (5) Commitments and Contingencies - continued

### *(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 with significant support received from governmental agencies. 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) Net Assets

### *(a) Net Assets With Donor Restrictions*

Net assets with donor restrictions consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2019, net assets with donor restrictions are restricted for the following purposes or periods:

| | |
|---|---|
| Subject to expenditure for a specified purpose: | |
| Program | $ 2,721,401 |
| Subject to the passage of time: | |
| For periods after June 30, 2019 | 648,169 |
| Total | 3,369,570 |
| Endowments subject to the Organization's spending policy and appropriation: | |
| Investment in perpetuity | 111,477 |
| Total net assets with donor restrictions | $ 3,481,047 |

## (6) Net Assets - continued

### *(a) Net Assets With Donor Restrictions - continued*

Included in the time restricted net assets is a pledge of $250,000 of an original $500,000 pledge which the Board of Directors has voted to use the funds, once received, to establish a Board designated endowment; the proceeds of which will be used for new program initiatives. $250,000 was received in fiscal year 2019 and is included in board designated net assets - endowment fund in net assets without donor restrictions.

Included in the time restricted net assets is an additional pledge of $100,000 which the Board of Directors has voted to use the funds, once received, to establish a Board designated endowment; the proceeds of which will be used for new program initiatives.

As of June 30, 2019, the endowment totaled $111,477. An immaterial amount of interest was earned and released on these net assets with donor restrictions during the year ended June 30, 2019.

### *(b) Net Assets Without Donor Restrictions*

The Organization's net assets without donor restrictions is comprised of undesignated and Board designated amounts for the following purposes as of June 30, 2019:

| | | |
|---|---|---|
| Undesignated | $ | 1,031,180 |
| Board designated - operating reserve | | 1,000,000 |
| Board designated - endowment fund | | 250,000 |
| Total | $ | 2,281,180 |

## (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.

## (7) Endowment - continued

### *(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 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.

### *(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 duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies 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.

## (7) Endowment - continued

### *(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 U.S. GAAP, deficiencies of this nature are reported in net assets without donor restrictions. 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 net assets without donor restrictions. There were no such deficiencies as of June 30, 2019.

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

The endowment fund is solely comprised of donor-restricted contributions included in net assets with donor restrictions on the statement of activities.

## (8) 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 fiscal 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, and;
- a Board member holds a significant position with a customer that receives donated books from the Organization.

## (9) Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year from the statement of financial position date, because of donor imposed restrictions and board designations.

| | | |
|---|---|---|
| Financial assets at year end | | |
| Cash and cash equivalents | $ | 3,397,564 |
| Grant receivable | | 2,392,500 |
| Accounts receivable | | 48,333 |
| Total | | 5,838,397 |
| Less amounts unavailable for general expenditures Within one year, due to: | | |
| Restricted by donors for specific purposes | | 3,089,381 |
| Restricted by donor for time purposes | | 90,000 |
| Total | | 3,179,381 |
| Less amounts unavailable to management without Board approval: | | |
| Board designated for Operating Reserve | | 1,000,000 |
| Board designated - endowment fund | | 250,000 |
| | | 1,250,000 |
| Financial assets available to meet cash needs for general expenditures within one year | $ | 1,409,016 |

The Organization relies upon private and recurring government funding to support its programming and operating activities. As such, certain financial assets may not be available for general expenditure with one year, if those financial assets have donor-imposed restrictions for specific use or a future period. As part of the Organization's liquidity management plan, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Cash is maintained in checking and interest-bearing savings accounts and is readily available for use. In addition, the Board has set aside funds to operate as a reserve fund, which can be appropriated by the Board at any time should the need arise.

## (10) Subsequent Events

The Organization has performed an evaluation of subsequent events through February 18, 2020, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2019 that required recognition or disclosure in these financial statements.