Reach Out and Read, Inc.

Financial Statements

June 30, 2020

Kevin P. Martin & Associates, P.C.

Reach Out and Read, Inc.

Index

June 30, 2020

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, 2020, 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, 2020, 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. 2016-18, *Statement of Cash Flows - Restricted Cash,* ASU No. 2018-08, *Clarified Scope and Accounting Guidance for Contributions Received and Made* and ASU 2016-15, *Statement of Cash Flows - Clarification of Certain Cash Receipts and Cash Payments*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 18, 2020. 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, 2019, 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 December 10, 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
December 10, 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, 2020, 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 December 10, 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
December 10, 2020

Reach Out and Read, Inc.

Statement of Financial Position

As of June 30, 2020
With Comparative Totals as of June 30, 2019

		2020		2019
Current Assets				
Operating cash	$	4,025,738	$	2,433,522
Cash reserves		864,574		852,565
Total cash and cash equivalents		4,890,312		3,286,087
Accounts receivable		117,027		48,333
Grants receivable, current		1,278,490		2,268,776
Prepaid expenses		30,814		148,321
Total current assets		6,316,643		5,751,517
Property and Equipment				
Furniture and fixtures		23,410		23,410
Computer equipment and software		521,608		322,298
Construction in process		-		63,000
Total property and equipment		545,018		408,708
Less: accumulated depreciation		(119,723)		(77,398)
Total property and equipment, net		425,295		331,310
Other Assets				
Intangible assets, net		66,217		29,500
Cash restricted for endowment		111,477		111,477
Grants receivable, net of current portion		147,500		123,724
Total other assets		325,194		264,701
Total Assets	$	7,067,132	$	6,347,528
Current Liabilities				
Accounts payable	$	132,616	$	111,118
Accrued expenses		406,613		455,608
Grants payable		10,514		18,575
Note payable - paycheck protection program		933,180		-
Total current liabilities		1,482,923		585,301
Net Assets				
Net assets without donor restrictions				
Board designated		1,275,000		1,250,000
Undesignated		1,899,846		1,031,180
Total net assets without donor restrictions		3,174,846		2,281,180
Net assets with donor restrictions		2,409,363		3,481,047
Total net assets		5,584,209		5,762,227
Total Liabilities and Net Assets	$	7,067,132	$	6,347,528

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, 2020
With Comparative Totals for the Year Ended June 30, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2020 Total	2019 Total
Support and Revenue				
Contributions	$ 3,193,272	$ 3,537,463	$ 6,730,735	$ 5,975,254
Donated goods and services	2,565,208	-	2,565,208	2,722,567
Government grants	2,857,470	-	2,857,470	2,884,005
Other	11,542	-	11,542	-
Interest	30,108	-	30,108	22,263
Total Support and Revenue	8,657,600	3,537,463	12,195,063	11,604,089
Net assets released from restrictions	4,609,147	(4,609,147)	-	-
Total	13,266,747	(1,071,684)	12,195,063	11,604,089
Expenses				
Program	10,062,418	-	10,062,418	10,222,899
Management and general	1,165,385	-	1,165,385	1,169,373
Fundraising	1,145,278	-	1,145,278	1,428,742
Total Expenses	12,373,081	-	12,373,081	12,821,014
Change in Net Assets	893,666	(1,071,684)	(178,018)	(1,216,925)
Net Assets - Beginning of Year	2,281,180	3,481,047	5,762,227	6,979,152
Net Assets - End of Year	$ 3,174,846	$ 2,409,363	$ 5,584,209	$ 5,762,227

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, 2020
With Comparative Totals for the Year Ended June 30, 2019

Cash Flows from Operating Activities	2020	2019
Change in net assets	$ (178,018)	$ (1,216,925)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	44,608	31,574
Decrease (increase) in assets:		
Accounts receivable	(68,694)	(45,348)
Grants receivable	966,510	191,630
Prepaid expenses	117,507	(135,236)
Increase (decrease) in liabilities:		
Accounts payable	21,498	(48,144)
Accrued expenses	(48,995)	99,241
Grants payable	(8,061)	(4,521)
Net Cash Provided by (Used in) Operating Activities	846,355	(1,127,729)
Cash Flows from Investing Activities		
Purchase of property and equipment	(136,310)	(115,173)
Purchase of intangible assets	(39,000)	(29,500)
Net Cash Used in Investing Activities	(175,310)	(144,673)
Cash Flows from Financing Activities		
Advances on note payable - paycheck protection program	933,180	-
Net Cash Provided by Financing Activities	933,180	-
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	1,604,225	(1,272,402)
Cash, Cash Equivalents and Restricted Cash - Beginning	3,397,564	4,669,966
Cash, Cash Equivalents and Restricted Cash - Ending	$ 5,001,789	$ 3,397,564
Cash and cash equivalents	$ 4,890,312	$ 3,286,087
Cash restricted for endowment	111,477	111,477
Cash, Cash Equivalents and Restricted Cash - Ending	$ 5,001,789	$ 3,397,564

Reach Out and Read, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

	Program	Management and General	Fundraising	2020 Total	2019 Total
Salaries	$ 3,243,301	$ 526,341	$ 651,301	$ 4,420,943	$ 3,929,113
Payroll taxes and benefits	711,054	124,924	109,667	945,645	947,908
Total employee compensation	3,954,355	651,265	760,968	5,366,588	4,877,021
Books	4,750,072	-	-	4,750,072	5,139,949
Coalitions	10,000	-	-	10,000	187,402
Conferences and travel	155,843	17,514	11,683	185,040	298,610
Consulting	840,984	221,070	210,736	1,272,790	1,068,842
Depreciation and amortization	-	44,608	-	44,608	31,574
Equipment rental and maintenance	44,768	106,593	24,649	176,010	143,839
Literacy materials	16,668	-	-	16,668	63,075
Other communication and outreach	907	-	20,500	21,407	76,095
Other expenses	51,719	23,667	31,259	106,645	112,937
Other occupancy	2,284	1,142	1,142	4,568	2,605
Payroll and human resources fees	55,646	22,023	24,267	101,936	163,303
Postage and delivery	4,082	1,931	19,094	25,107	45,556
Printing	7,015	235	17,935	25,185	38,828
Professional fees	-	23,091	-	23,091	24,247
Recruiting	718	48	143	909	81,811
Rent	40,201	20,101	20,101	80,403	95,719
Research and evaluation	29,851	-	-	29,851	185,947
Staff development, education and training	1,575	1,433	98	3,106	8,976
Supplies	12,738	3,428	328	16,494	25,795
Telephone and internet	28,101	26,599	1,738	56,438	53,297
Training	53,616	-	-	53,616	92,777
Utilities	1,275	637	637	2,549	2,809
Total Functional Expenses	$ 10,062,418	$ 1,165,385	$ 1,145,278	$ 12,373,081	$ 12,821,014

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, 2020, 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:

Net Assets Without Donor Restrictions - 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.

Net Assets With Donor Restrictions - 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 and Cash Restricted for Endowment

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 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 Bank of America, Merrill Lynch and BNY Mellon amounted to \$3,801,819, \$975,178 and \$314,060, respectively, as of June 30, 2020. The Organization did not maintain cash balances in excess of FDIC limits in any other financial institution as of June 30, 2020.

Cash restricted for endowment is restricted by a donor, see Note 8(a) for more details.

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition

The Organization earns revenue as follows:

Government Grants - The Organization receives funding from state and federal governmental agencies and various other grantors for direct and indirect program costs associated with specific programs and projects. Various grants are subject to certain barriers as outlined in the agreement. Revenue is recognized as the barrier is met. For unconditional grants, revenue is recognized as contribution revenue that increases net assets with donor restrictions at the time the grant is received or pledged and the funds are released from restriction when the restriction has been met.

Contributions - In accordance with ASC Sub Topic 958-605, *Revenue Recognition*, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barrier or other measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Contributions without donor restrictions are recognized as revenue when received or unconditionally pledged. Contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as services are performed and costs are incurred pro-rata over the period covered by the grant or contribution as time restrictions lapse.

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, 2020, the Organization derived approximately 76% of its total revenue from corporations and individual grants and contributions and 24% from governmental agencies. All revenue is recorded at the estimated net realizable amounts.

(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, 2020, 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, 2020, management has determined any allowance would be immaterial.

As of June 30, 2020, the Organization's grants receivable consisted of approximately 91% due from corporations and individuals and 9% due from governmental agencies. One corporation represents 19% of the grant receivable.

(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

(1) Summary of Significant Accounting Policies - continued

(i) Fundraising

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

(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 2019

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 activities and 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, 2019, from which the summarized information was derived.

(1) Summary of Significant Accounting Policies - continued

(n) Intangible Assets

Intangible assets consist of rebranding costs for the Organization, are recorded on the cost method and are not amortized until placed into service. The costs for rebranding have been placed into service as of June 30, 2020 with a useful life of five years. As of June 30, 2020, costs incurred were $68,500 and accumulated amortization was $2,283. The intangible assets, net balance as of June 30, 2020 was $66,217.

(o) Recent Accounting Standards Adopted

On July 1, 2019, the Organization adopted ASU 2018-08, *Not-for Profit Entities (Topic 958), Clarified Scope and Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify and improve the guidance in U.S. GAAP for distinguishing transactions that are contributions from those that are exchange transactions. The ASU also provides guidance for determining if a contribution that is a promise to give is conditional. The Organization adopted the ASU using a modified prospective method effective July 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of July 1, 2019. As a result, the 2019 financial statements are not restated and there was no cumulative effect adjustment to opening net assets as of July 1, 2019.

On July 1, 2019, the Organization adopted ASU 2016-18, *Statement of Cash Flows - Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 and must be applied retroactively to all periods presented. As a result, for the years ended June 30, 2020 and 2019, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statements of cash flows, with no effect on previously reported change in net assets. Other than this change, the adoption of ASU 2016-18 did not have a material impact on the Organization's financial position, results of operations or cash flows.

On July 1, 2019, the Organization adopted ASU 2016-15, *Statement of Cash Flows - Clarification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how eight specific cash flow transactions are presented and classified in the statements of cash flows. The ASU must be applied retroactively to all periods presented, if practical. The adoption of the ASU did not have a material impact on the financial statements.

(1) Summary of Significant Accounting Policies - continued

(p) Recent Accounting Standards

In June 2020, FASB issued ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842). ASU 2020-05 deferred the implementation date of ASU 2016-02 and ASU 2014-09 by one year. These ASUs are described below.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, ASC 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1 - identify the contract(s) with the customer; Step 2 - Identify the performance obligations in the contract; Step 3 - determine the transaction price; Step 4 - Allocate the transaction price to the performance obligations in the contract and Step 5 - recognize revenue when (or as) the entity satisfies a performance obligation. Services within the scope of ASU 2014-09 primarily include program service fees. The ASU was set to be effective for fiscal years beginning after December 15, 2018 and has been extended to be effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

In March 2016, FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net). In December 2016, FASB Issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. These ASUs will be adopted concurrent with the Organization's adoption of ASU 2014-09.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today.

The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU was set to be effective on January 1, 2021, with early adoption permitted. The effective date was extended to fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

(1) Summary of Significant Accounting Policies - continued

(p) Recent Accounting Standards - continued

In July 2018, FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842), Targeted Improvements*. In December 2019, FASB issued ASU 2018-20, *Leases (Topic 842), Narrow-Scope Improvements for Lessors*. Adoption of these ASUs will run concurrent with the Organization's adoption of ASU 2016-02.

In September 2020, FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets.* The amendments in this update address presentation and disclosure of contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

(q) Reclassifications

In addition to the reclassifications described in the above disclosure, certain amounts in the prior year have been reclassified to conform to the current year presentation.

(2) Grant Receivable

Grants receivable consist of the following as of June 30, 2020:

	Gross Promise	Allowance	Net Promise	Unamortized Discount	Total
Receivable less than 1 year	$ 1,278,490	$ -	$ 1,278,490	$ -	$ 1,278,490
Receivable in 1 to 5 years	147,500	-	147,500	-	147,500
	$ 1,425,990	$ -	$ 1,425,990	$ -	$ 1,425,990

As of June 30, 2020, 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) Note Payable - Paycheck Protection Program (PPP) Loan

During the year ended June 30, 2020, the Organization received a PPP loan established by the CARES Act and administered by the Small Business Administration (SBA). The loan was passed through Bank of America. No collateral or personal guarantees are required. The loan bears interest at a rate of 1%, which is deferred for the first six months, and matures on May 4, 2022. Management expects that the loan will be substantially forgiven during the year ended June 30, 2021 and as such the loan has been presented as a current liability on the statement of financial position. The SBA has disclosed criteria for forgiveness which include but not limited to maintaining the full-time equivalent number of employees over certain time period and expending the funds on eligible expenses over the covered period. The Organization will recognize forgiveness of the loan in full or in part when the SBA determines the amount of forgiveness and notifies the Organization. During the year ended June 30, 2020, interest expense amounted to $1,458. As of June 30, 2020, the outstanding balance was $933,180 and accrued interest expense was $1,458 and is included in accrued expenses on the statement of financial position.

(4) Donated Goods and Services

Donated goods and services for the year ended June 30, 2020 were as follows:

Pro-bono outside services:		
Professional services	$	140
Gifts in kind:		
Books and literacy materials		2,565,068
Total revenue recognized	$	2,565,208

Donated books and literacy materials from three corporations accounted for 71% of the donated goods and services received during the year ended June 30, 2020.

(5) 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:

2021	$	76,175

Rent, common area and property tax expense for the year ended June 30, 2020 was $80,403.

The Organization also leases equipment for use within their office locations. The Organization's current lease agreements go through fiscal year 2025. Future minimum lease payments are as follows:

2021 - 2024	$	10,800
2025		2,700

(6) Commitments and Contingencies

(a) Co-employee Relationship

The Organization had a co-employee relationship with Insperity, whereby all employees are compensated by Insperity through December 31, 2019. As of January 1, 2020, Namely, Inc. took over control of the co-employee relationship. The Organization pays for 100% of gross salaries, as well as a percentage of gross salaries for taxes, benefits and related fees. As of June 30, 2020, $342,692 is owed to Namely, Inc. and is included in accrued expenses on the accompanying statement of financial position.

The total salaries, fringe benefits and administrative service fees paid under these agreements was $5,468,524 for the year ended June 30, 2020.

(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.

(7) COVID-19 - *Risks and Uncertainties*

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. At this stage, the limited impact to the Organization resulted in a loss of revenues and other adverse effects to the Organization's financial position, results of operations, and cash flows. As described in Note 3, the Organization received a PPP loan. Further, the Organization's liquidity as of June 30, 2020 is documented at Note 11. The Organization is not able to estimate the length or severity of this outbreak and the related financial impact. Management plans to adjust its operations accordingly and will continue to assess and monitor the situation as it evolves. If the length of the outbreak and related effects on the Organization's operations continue for an extended period of time the Organization may have to seek alternative measures to finance its operations. The Organization does not believe that the impact of COVID-19 would have a material adverse effect on its financial condition or liquidity.

(8) 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, 2020, net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for a specified purpose:		
Program	$	1,605,386
Subject to the passage of time:		
For periods after June 30, 2020		692,500
Total		2,297,886
Endowments subject to the Organization's spending policy and appropriation:		
Investment in perpetuity		111,477
Total net assets with donor restrictions	$	2,409,363

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. A total of $250,000 was received in a prior year and is included in board designated - endowment fund in net assets without donor restrictions.

Included in the time restricted net assets is a pledge of $75,000 of an original $100,000 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. A total of $25,000 was received in fiscal year 2020 and is included in board designated - endowment fund in net assets without donor restrictions.

As of June 30, 2020, 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, 2020.

Net assets released from restrictions during the year ended June 30, 2020 were $4,609,147, of which $3,835,230 was from program restrictions and $773,917 was from time restrictions.

(8) Net Assets - continued

(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, 2020:

Undesignated	$	1,899,846
Board designated - operating reserve		1,000,000
Board designated - endowment fund		275,000
Total	$	3,174,846

(9) 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 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.

(9) Endowment

(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.

(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, 2020.

(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.

(10) 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.

(11) Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2020, 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	$ 5,001,789
Grant receivable	1,425,990
Accounts receivable	117,027
Total	6,544,806
Less amounts unavailable for general expenditures Within one year, due to:	
Restricted by donors for specific purposes	1,605,386
Restricted by donor for long-term time purposes	125,000
Total	1,730,386
Less amounts unavailable to management without Board approval:	
Board designated for Operating Reserve	1,000,000
Board designated - endowment fund	275,000
	1,275,000
Financial assets available to meet cash needs for general expenditures within one year	$ 3,539,420

(11) Liquidity and Availability of Resources - continued

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.

(12) Subsequent Events

The Organization has performed an evaluation of subsequent events through December 10, 2020, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2020 that required recognition or disclosure in these financial statements.