

Reach Out and Read, Inc.

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Reach Out and Read, Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Organization for the year ended June 30, 2021 were audited by another auditor whose report dated November 15, 2021, included an emphasis-of-matter indicating that the Organization has adopted ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, and expressed an unmodified opinion on those statements.

The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Accounting Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023, 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.

CohnReznick LLP

Braintree, Massachusetts
March 29, 2023

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited, 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, the financial statements of Reach Out and Read, Inc. (a nonprofit organization) ("the Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2023.

Report on 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) as a basis for designing 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 over financial reporting.

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 or significant deficiencies may exist that have not been identified.

Report on 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Braintree, Massachusetts
March 29, 2023

Reach Out and Read, Inc.

**Statement of Financial Position
As of June 30, 2022
With Comparative Totals as of June 30, 2021**

	2022	2021
Current assets		
Operating cash	\$ 7,015,561	\$ 6,460,833
Cash reserves	865,495	865,520
Total cash and cash equivalents	7,881,056	7,326,353
Accounts receivable	1,185,749	514,418
Grants receivable, current	2,903,588	1,508,305
Prepaid expenses	42,562	51,541
Total current assets	12,012,955	9,400,617
Property and equipment		
Furniture and fixtures	23,410	23,410
Computer equipment and software	596,248	561,048
Total property and equipment	619,658	584,458
Less: accumulated depreciation	(253,907)	(185,055)
Total property and equipment, net	365,751	399,403
Other assets		
Intangible assets, net	38,817	52,517
Investments	1,403,792	-
Cash restricted for endowment	111,477	111,477
Grants receivable, net of current portion	1,069,382	160,000
Total other assets	2,623,468	323,994
Total assets	\$ 15,002,174	\$ 10,124,014
Current liabilities		
Accounts payable	\$ 660,062	\$ 316,855
Accrued expenses	909,286	729,772
Grants payable	841	5,404
Notes payable - paycheck protection program	-	933,180
Total current liabilities	1,570,189	1,985,211
Net assets		
Net assets without donor restrictions		
Board designated	1,550,000	1,550,000
Undesignated	7,183,895	3,988,599
Total net assets without donor restrictions	8,733,895	5,538,599
Net assets with donor restrictions	4,698,090	2,600,204
Total net assets	13,431,985	8,138,803
Total liabilities and net assets	\$ 15,002,174	\$ 10,124,014

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, 2022
With Comparative Totals for the Year Ended June 30, 2021**

	Without donor restrictions	With donor restrictions	2022 Total	2021 Total
Support and revenue				
Contributions	\$ 5,304,709	\$ 6,877,675	\$ 12,182,384	\$ 8,159,089
Donated goods and services: in-kind	2,067,999	-	2,067,999	2,471,672
Government grants	5,391,993	-	5,391,993	3,596,685
Other	102,966	-	102,966	57,361
Interest	6,432	-	6,432	3,697
	<u>12,874,099</u>	<u>6,877,675</u>	<u>19,751,774</u>	<u>14,288,504</u>
Total support and revenue				
Net assets released from restrictions	4,779,789	(4,779,789)	-	-
	<u>17,653,888</u>	<u>2,097,886</u>	<u>19,751,774</u>	<u>14,288,504</u>
Total				
Expenses				
Program	12,472,644	-	12,472,644	10,171,939
Management and general	1,478,888	-	1,478,888	1,464,389
Fundraising	1,298,875	-	1,298,875	1,030,762
	<u>15,250,407</u>	<u>-</u>	<u>15,250,407</u>	<u>12,667,090</u>
Total expenses				
Change in net assets before other income	2,403,481	2,097,886	4,501,367	1,621,414
Other income (loss)				
Forgiveness of note payable - paycheck protection program	940,956	-	940,956	933,180
Unrealized loss on investments	(149,141)	-	(149,141)	-
	<u>791,815</u>	<u>-</u>	<u>791,815</u>	<u>933,180</u>
Total other income (loss)				
Change in net assets	3,195,296	2,097,886	5,293,182	2,554,594
Net assets - beginning of year	5,538,599	2,600,204	8,138,803	5,584,209
Net assets - end of year	<u>\$ 8,733,895</u>	<u>\$ 4,698,090</u>	<u>\$ 13,431,985</u>	<u>\$ 8,138,803</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

Reach Out and Read, Inc.

**Statement of Functional Expenses
For the Year Ended June 30, 2022
With Comparative Totals for the Year Ended June 30, 2021**

	Program	Management and General	Fundraising	2022 Total	2021 Total
Salaries	\$ 3,921,440	\$ 766,542	\$ 706,049	\$ 5,394,031	\$ 4,466,979
Payroll taxes and benefits	833,899	128,051	192,295	1,154,245	998,397
Total employee compensation	4,755,339	894,593	898,344	6,548,276	5,465,376
Books, purchased	3,645,486	-	-	3,645,486	2,397,810
Books, in-kind	1,949,396	-	-	1,949,396	2,423,716
Coalitions	493,913	-	-	493,913	322,830
Conferences and travel	55,249	13,091	775	69,115	4,120
Consulting	663,464	199,178	254,175	1,116,817	1,137,752
Advertising, in-kind	118,603	-	-	118,603	47,956
Depreciation and amortization	4,875	77,677	-	82,552	79,032
Equipment rental and maintenance	59,313	158,786	30,362	248,461	261,336
Literacy materials	9,004	-	-	9,004	14,977
Other communication and outreach	66,419	-	-	66,419	17,878
Other expenses	59,212	38,375	27,234	124,821	84,354
Other occupancy	7,224	1,412	1,301	9,937	8,687
Payroll and human resources fees	110,339	16,943	25,444	152,726	23,401
Postage and delivery	20,677	1,872	15,971	38,520	37,817
Printing	16,747	15	32,869	49,631	43,242
Professional fees	-	20,191	-	20,191	30,770
Recruiting	23,567	20,883	-	44,450	4,406
Rent	46,571	9,104	8,385	64,060	56,334
Research and evaluation	43,410	-	-	43,410	27,803
Staff development, education and training	12,112	5,084	-	17,196	7,698
Supplies	27,766	3,396	1,702	32,864	14,818
Telephone and internet	55,170	17,938	1,990	75,098	63,421
Training	226,996	-	-	226,996	89,736
Utilities	1,792	350	323	2,465	1,820
	\$ 12,472,644	\$ 1,478,888	\$ 1,298,875	\$ 15,250,407	\$ 12,667,090

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, 2022
With Comparative Totals for the Year Ended June 30, 2021**

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 5,293,182	\$ 2,554,594
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	82,552	79,032
Forgiveness of note payable - paycheck protection program, net interest	(933,180)	(933,180)
Net unrealized loss on investments	149,141	-
Decrease (increase) in assets		
Accounts receivable	(671,331)	(397,391)
Grants receivable	(2,304,665)	(242,315)
Prepaid expenses	8,979	(20,727)
Increase (decrease) in liabilities		
Accounts payable	343,207	184,239
Accrued expenses	179,514	323,159
Grants payable	(4,563)	(5,110)
Net Cash Provided by Operating Activities	2,142,836	1,542,301
Cash Flows from Investing Activities		
Purchase of property and equipment	(35,200)	(39,440)
Purchase of investments	(1,552,933)	-
Net Cash Used in Investing Activities	(1,588,133)	(39,440)
Cash Flows from Financing Activities		
Advances on notes payable - paycheck protection program	-	933,180
Net Cash Provided by Financing Activities	-	933,180
Net Increase in Cash, Cash Equivalents and Restricted Cash	554,703	2,436,041
Cash, Cash Equivalents and Restricted Cash - Beginning	7,437,830	5,001,789
Cash, Cash Equivalents and Restricted Cash - Ending	\$ 7,992,533	\$ 7,437,830
Cash and cash equivalents	\$ 7,881,056	\$ 7,326,353
Cash restricted for endowment	111,477	111,477
Cash, Cash Equivalents and Restricted Cash - Ending	\$ 7,992,533	\$ 7,437,830

The Accompanying Notes are an Integral Part of the Financial Statements.

Reach Out and Read, Inc.

Notes to Financial Statements June 30, 2022

Note 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.

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, 2022, approximately 6.6 million books were distributed to approximately 6,000 sites.

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. Nonoperating revenue consists of the forgiveness received on the Organization's Paycheck Protection Program (PPP) note payable and unrealized losses on the Organization's investment portfolio.

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.

Reach Out and Read, Inc.

Notes to Financial Statements June 30, 2022

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 the Board of Directors.

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.

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. The cash balances are insured 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 amounted to \$7,688,968 as of June 30, 2022. The Organization did not maintain cash balances in excess of FDIC limits in any other financial institution as of June 30, 2022.

Cash restricted for endowment is restricted by a donor, see Note 6 for more details.

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

Reach Out and Read, Inc.

Notes to Financial Statements June 30, 2022

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, 2022, the Organization's derived approximately 18% of their contribution revenue from one organization and approximately 64% of their grant revenue from three organizations. All revenue is recorded at the estimated net realizable amounts.

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, 2022, management has determined any allowance would be immaterial.

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

As of June 30, 2022, the Organization's accounts receivable consisted of approximately 78% due from governmental agencies.

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.

Reach Out and Read, Inc.

Notes to Financial Statements June 30, 2022

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, 2022, management has determined any allowance would be immaterial.

As of June 30, 2022, the Organization's grants receivable included approximately 18% due from governmental agencies as well as 24% due from one donor.

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

Fixed assets are reviewed for impairment if the use of the asset significantly changes or another indicator or possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Investments for the Organization are professionally managed in a portfolio of bonds and stocks of publicly traded companies and mutual funds. Such investments are exposed to various risk such as interest rate, market and credit. Due to level of risk associated with such investments and uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term would materially affect investments balances and the amounts reported in the accompanying financial statements. Unrealized gains and losses are included in the statement of activities.

Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Organization and promoting special events. Fundraising expenses as a percentage of total contribution revenue was 11% for the year ended June 30, 2022.

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.

Reach Out and Read, Inc.

Notes to Financial Statements June 30, 2022

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

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.

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.

Management has analyzed the tax positions taken by the Organization and has concluded that, as of June 30, 2022, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Generally, the Organization's information and tax returns remain open for federal income tax examination for three years from the filing date. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2018 remain open.

Summarized financial information for 2021

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, 2021, from which the summarized information was derived.

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, 2022 with a useful life of five years. As of June 30, 2022, costs incurred were \$68,500 and accumulated amortization was \$29,683. The intangible assets, net balance as of June 30, 2022 was \$38,817. Estimated annual amortization for the next two years is \$13,700 and \$11,417 for the year ended June 30, 2025.

Reach Out and Read, Inc.

Notes to Financial Statements June 30, 2022

Recent accounting standards adopted

For the year ended June 30, 2022, the Organization adopted Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard provides guidance on the presentation of contributed nonfinancial assets in the statement of activities and additional disclosure requirements for each type of contributed nonfinancial asset. The ASU provides transparency on the measurement of the contributed nonfinancial assets of the Organization and will not change existing recognition and measurement requirements. The Organization has implemented the provisions of ASU 2020-07 applicable to all contributed nonfinancial assets.

Recent accounting standards

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.

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 2018, 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.

Paycheck protection program loan

As described at Note 3, the Organization received PPP loans during prior fiscal years. The Organization has elected to follow the guidance regarding Debt found in FASB ASC 470 - *Not-for-Profit Entities - Debt* to account for its PPP Loans. During the year ended June 30, 2022, the second draw loan was forgiven.

Note 2 - Grant receivable

Grants receivable consist of the following as of June 30, 2022:

	<u>Gross promise</u>	<u>Allowance</u>	<u>Net promise</u>	<u>Unamortized discount</u>	<u>Total</u>
Receivable less than 1 year	\$ 2,903,588	\$ -	\$ 2,903,588	\$ -	\$ 2,903,588
Receivable in 1 to 5 years	1,106,250	-	1,106,250	(36,868)	1,069,382
	<u>\$ 4,009,838</u>	<u>\$ -</u>	<u>\$ 4,009,838</u>	<u>(\$36,868)</u>	<u>\$ 3,972,970</u>

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Management believes that 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.

Note 3 - Note payable - PPP Loans

During the year ended June 30, 2021, the Organization received a second draw PPP loan established by the Economic Aid Act and administered by the Small Business Administration (SBA). The loan was passed through Bank of America. No collateral or personal guarantees were required. The loan bore interest at a rate of 1% and was to mature in 2026. Payments of interest and principal were to be deferred for 10 months followed by equal payments with interest calculated on the unpaid principal balances. The SBA disclosed criteria for forgiveness which included but was not limited to maintaining the full-time equivalent number of employees over a certain time period and expending the funds on eligible expenses over the covered period. During the year ended June 30, 2022, the Organization recognized forgiveness of the loan in full totaling \$940,956, which included \$7,776 of accrued interest, upon notification of forgiveness of the loan from the SBA.

Note 4 - Investment in marketable securities

Investments in marketable securities as of June 30, 2022 are as follows:

	<u>Market value</u>
Equities	\$ 843,847
Fixed income	<u>505,862</u>
	1,349,709
Cash and money market	<u>54,083</u>
Total investments	<u><u>\$ 1,403,792</u></u>

Note 5 - Fair value measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

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- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Fair value methods and assumptions on investments consisting of marketable securities are based on values in public exchanges and reported with Level 1 inputs.

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2022:

	Fair value	Level 1	Level 2	Level 3
Government securities	\$ 108,787	\$ 108,787	\$ -	\$ -
Corporate bonds	135,980	135,980	-	-
Municipal bonds	57,232	57,232	-	-
Domestic equities	459,859	459,859	-	-
Equity mutual funds	383,988	383,988	-	-
Fixed income mutual funds	203,863	203,863	-	-
Total	<u>\$ 1,349,709</u>	<u>\$ 1,349,709</u>	<u>\$ -</u>	<u>\$ -</u>

Note 6 - Endowments

The Organization's endowment consists of funds established for a variety of purposes, see Note 11. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act ("MA 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. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with MA UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of its endowment funds. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment

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assets are invested in a well diversified asset mix, which includes high quality instruments of 91 days or less maturity, individual equity and fixed income securities, mutual funds or exchange traded funds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution in accordance with its spending policies, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return higher than the expected annual distribution. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Organization has a policy of appropriating for distribution from the net assets with donor restrictions, in the endowment fund, an amount not to exceed 5% of the total funds available during the prior year, including all invested assets and the income and appreciation realized on such invested assets. The policy is subject to any adjustment as the Board of Directors may deem necessary or appropriate from year to year. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy will allow for the greatest investment flexibility and for the growth of its endowment funds, in the long term, of the annual income allocation to the Organization's operating budget.

The Board-designated endowment fund was established to provide a continuous source of income to the Organization.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of the Organization has interpreted MA UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	Without donor restrictions	With donor restrictions	Total net endowment assets
Donor restricted endowment funds	\$ -	\$ 111,477	\$ 111,477
Board-designated endowment fund	550,000	-	550,000
Balance, end of year	<u>\$ 550,000</u>	<u>\$ 111,477</u>	<u>\$ 661,477</u>

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June 30, 2022**

A summary of changes in endowment net assets for the year ended June 30, 2022 is as follows:

	Without donor restrictions	With donor restrictions	Total net endowment assets
Balance, beginning of year	\$ 550,000	\$ 111,477	\$ 661,477
Additional board designations	-	-	-
Investment income (loss), net	(52,921)	-	(52,921)
Balance, end of year	\$ 497,079	\$ 111,477	\$ 608,556

During the year ended June 30, 2022, an immaterial amount of interest was earned and released on the with donor restrictions endowment.

Note 7 - Contributed nonfinancial assets

Contributed nonfinancial assets recognized within the statement of activities for the year ended June 30, 2022 were as follows:

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Books	\$ 1,949,396	Programs	None	Fair market value of the asset at the date of donation using comparable resale
Advertising	118,603	Programs	None	Fair market value of the time incurred for services provided
Total	\$ 2,067,999			

Note 8 - Operating lease commitments

The Organization occupies office space under non-cancelable, operating lease agreements with expiration dates through fiscal year 2023. The Organization is also liable for certain real estate tax increases and operating cost adjustments under the office lease terms. All such leases are tenant at will through June 30, 2023.

Rent, common area and property tax expense for the year ended June 30, 2022 was \$64,060.

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 for the years ending June 30:

2023	\$ 10,800
2024	10,800
2025	2,700
Total	\$ 24,300

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Note 9 - Commitments and contingencies

Co-employee relationship

The Organization has a co-employee relationship with Namely, Inc., whereby all employees are compensated by Namely, Inc. 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, 2022, \$431,243 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 \$6,701,002 for the year ended June 30, 2022.

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.

Note 10 - 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 impact to the Organization's financial position, results of operations, and cash flows has been limited. As described in Note 3, the Organization received PPP loans. Further, the Organization's liquidity as of June 30, 2022 is documented at Note 13. 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.

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Notes to Financial Statements
June 30, 2022

Note 11 - Net Assets

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, 2022, net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for a specified purpose: Program	\$ 3,068,082
Subject to the passage of time For periods after June 30, 2022	<u>1,518,531</u>
Total	<u>4,586,613</u>
Endowments subject to the Organization's spending policy and appropriation Investment in perpetuity	<u>111,477</u>
Total net assets with donor restrictions	<u>\$ 4,698,090</u>

As of June 30, 2022, 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, 2022.

Net assets released from restrictions during the year ended June 30, 2022, were \$4,779,789, of which \$3,338,983 was from program restrictions and \$1,440,806 was from time restrictions.

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, 2022:

Undesignated	\$ 7,183,895
Board designated - operating reserve	1,000,000
Board designated - endowment fund	<u>550,000</u>
Total	<u>\$ 8,733,895</u>

As of June 30, 2022, the board designated endowment fund totaled \$550,000.

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Note 12 - 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 role 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 role with a customer that receives donated books from the Organization.

Note 13 - Liquidity and availability of resources

The following reflects the Organization's financial assets as of June 30, 2022, 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	\$ 7,881,056
Grants receivable	3,972,970
Accounts receivable	1,185,749
Investments	1,403,792
Total	<u>13,039,775</u>
Less amounts unavailable for general expenditures	
Within one year, due to	
Restricted by donors for specific purposes	<u>3,068,082</u>
Total	<u>3,068,082</u>
Less amounts unavailable to management without	
Board approval	
Board designated for operating reserve	1,000,000
Board designated - endowment fund	550,000
Total	<u>1,550,000</u>
Financial assets available to meet cash needs for general	
expenditures within one year	<u>\$ 8,421,693</u>

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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 within 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.

Note 14 - Defined contribution plan

The Organization has a defined contribution pension plan that qualifies as a tax-sheltered account under Section 401(k) of the IRC for the benefit of eligible employees. Organization matching contributions (1:1 match up to 4%) are available for eligible employees. Under the plan, benefit eligible employees can invest pre-tax dollars. The employees are not taxed on contributions or earnings until they receive distributions from the account. The Organization's contributions under this plan amounted to \$151,880 for the year ended June 30, 2022.

Note 15 - Subsequent events

The Organization has performed an evaluation of subsequent events through March 29, 2023, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2022 that required recognition or disclosure in these financial statements.