

Reach Out and Read, Inc.
**Financial Statements
and Independent Auditor's Report**
June 30, 2024

Reach Out and Read, Inc.

**Statement of Financial Position
As of June 30, 2024
With Comparative Totals for the Year Ended June 30, 2023**

<u>Assets</u>		
	2024	2023
Current assets		
Operating cash	\$ 1,932,434	\$ 1,947,112
Cash reserves	-	887,844
Total cash and cash equivalents	1,932,434	2,834,956
Accounts receivable	1,366,222	1,272,721
Grants receivable, current	6,104,580	4,532,300
Prepaid expenses	69,043	198,586
Total current assets	9,472,279	8,838,563
Property and equipment		
Furniture and fixtures	23,410	23,410
Computer equipment and software	785,848	680,848
Total property and equipment	809,258	704,258
Less: accumulated depreciation	(410,375)	(327,625)
Total property and equipment, net	398,883	376,633
Other assets		
Intangible assets, net	11,417	25,117
Investments	16,638,243	14,891,288
Cash restricted for endowment	111,477	111,477
Grants receivable, net of current portion	2,572,110	1,251,286
Total other assets	19,333,247	16,279,168
Total assets	\$ 29,204,409	\$ 25,494,364
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 914,499	\$ 399,572
Accrued expenses	925,995	641,464
Grants payable	1,602	896
Total current liabilities	1,842,096	1,041,932
Net assets		
Net assets without donor restrictions		
Board designated	1,550,000	1,550,000
Undesignated	17,578,653	16,385,028
Total net assets without donor restrictions	19,128,653	17,935,028
Net assets with donor restrictions	8,233,660	6,517,404
Total net assets	27,362,313	24,452,432
Total liabilities and net assets	\$ 29,204,409	\$ 25,494,364

See Notes to Financial Statements.

Reach Out and Read, Inc.

Statement of Activities As of June 30, 2024 With Comparative Totals for the Year Ended June 30, 2023

	Without donor restrictions	With donor restrictions	2024 Total	2023 Total
Support and revenue				
Contributions	\$ 4,805,065	\$ 12,528,631	\$ 17,333,696	\$ 20,968,020
Donated goods and services: in-kind	2,586,119	-	2,586,119	2,355,485
Government grants	5,943,988	-	5,943,988	4,692,505
Other	192,142	-	192,142	112,611
Interest	723,224	-	723,224	243,571
	<u>14,250,538</u>	<u>12,528,631</u>	<u>26,779,169</u>	<u>28,372,192</u>
Net assets released from restrictions	<u>10,812,375</u>	<u>(10,812,375)</u>	<u>-</u>	<u>-</u>
Total	<u>25,062,913</u>	<u>1,716,256</u>	<u>26,779,169</u>	<u>28,372,192</u>
Expenses				
Program	19,753,715	-	19,753,715	15,163,271
Management and general	2,201,000	-	2,201,000	1,478,839
Fundraising	2,089,699	-	2,089,699	1,693,800
	<u>24,044,414</u>	<u>-</u>	<u>24,044,414</u>	<u>18,335,910</u>
Change in net assets before other income	<u>1,018,499</u>	<u>1,716,256</u>	<u>2,734,755</u>	<u>10,036,282</u>
Other income				
Employee retention tax credit	-	-	-	889,600
Gain on investments	175,126	-	175,126	94,565
	<u>175,126</u>	<u>-</u>	<u>175,126</u>	<u>984,165</u>
Change in net assets	1,193,625	1,716,256	2,909,881	11,020,447
Net assets, beginning	<u>17,935,028</u>	<u>6,517,404</u>	<u>24,452,432</u>	<u>13,431,985</u>
Net assets, end	<u>\$ 19,128,653</u>	<u>\$ 8,233,660</u>	<u>\$ 27,362,313</u>	<u>\$ 24,452,432</u>

See Notes to Financial Statements.

Reach Out and Read, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2024
With Comparative Totals for the Year Ended June 30, 2023**

	Program	Management and general	Fundraising	2024 Total	2023 Total
Salaries	\$ 6,091,403	\$ 776,609	\$ 1,230,183	\$ 8,098,195	\$ 6,550,253
Payroll taxes and benefits	1,379,237	175,843	278,542	1,833,622	1,342,040
Total employee compensation	7,470,640	952,452	1,508,725	9,931,817	7,892,293
Books, purchased	5,140,710	-	-	5,140,710	3,909,932
Books, in-kind	2,586,119	-	-	2,586,119	2,355,485
Coalitions	1,722,005	-	-	1,722,005	877,832
Conferences and travel	585,172	188,119	12,445	785,736	428,071
Consulting	1,012,673	432,134	369,616	1,814,423	1,264,907
Depreciation and amortization	-	96,450	-	96,450	87,418
Equipment rental and maintenance	65,650	251,895	52,156	369,701	314,798
Literacy materials	55,056	-	-	55,056	20,885
Other communication and outreach	141,292	354	-	141,646	72,316
Other expenses	16,633	81,508	5,045	103,186	79,900
Other occupancy	6,208	791	1,254	8,253	7,530
Payroll and human resources fees	84,284	10,746	17,021	112,051	137,960
Postage and delivery	17,226	578	6,552	24,356	36,647
Printing	224,306	113,836	-	338,142	68,358
Professional fees	43,356	399	27,652	71,407	172,701
Recruiting	144,219	15,035	58,497	217,751	106,711
Rent	45,414	5,790	9,171	60,375	64,929
Research and evaluation	96,647	-	-	96,647	94,051
Staff development, education and training	26,052	656	13,322	40,030	48,279
Supplies	31,623	8,826	1,715	42,164	46,114
Telephone and internet	69,870	41,179	6,130	117,179	68,301
Training	166,586	-	-	166,586	177,927
Utilities	1,974	252	398	2,624	2,565
	\$ 19,753,715	\$ 2,201,000	\$ 2,089,699	\$ 24,044,414	\$ 18,335,910

See Notes to Financial Statements.

Reach Out and Read, Inc.

**Statement of Cash Flows
Year Ended June 30, 2024
With Comparative Totals for the Year Ended June 30, 2023**

	2024	2023
Cash flows from operating activities		
Change in net assets	\$ 2,909,881	\$ 11,020,447
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	96,450	87,418
Unrealized/realized gain on investments, net	(175,126)	(94,565)
(Increase) decrease in assets		
Accounts receivable	(93,501)	(86,972)
Grants receivable	(2,893,104)	(1,810,616)
Prepaid expenses	129,543	(156,024)
(Decrease) increase in liabilities		
Accounts payable	514,927	(260,490)
Accrued expenses	284,531	(267,822)
Grants payable	706	55
	774,307	8,431,431
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(105,000)	(84,600)
Purchase of investments	(1,619,314)	(13,644,634)
Proceeds from the sale of investments	47,485	251,703
	(1,676,829)	(13,477,531)
Net cash used in investing activities		
Net decrease in cash, cash equivalents and restricted cash	(902,522)	(5,046,100)
Cash, cash equivalents and restricted cash, beginning	2,946,433	7,992,533
Cash, cash equivalents and restricted cash, end	\$ 2,043,911	\$ 2,946,433
Cash and cash equivalents	\$ 1,932,434	\$ 2,834,956
Cash restricted for endowment	111,477	111,477
Cash, cash equivalents and restricted cash, end	\$ 2,043,911	\$ 2,946,433

See Notes to Financial Statements.

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Notes to Financial Statements June 30, 2024

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 5, 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 the 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 ended June 30, 2024, approximately 7.7 million books were distributed to approximately 6,500 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 revenues consist of gains and 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.

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Notes to Financial Statements June 30, 2024

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 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 one financial institution. 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 \$1,893,537 as of June 30, 2024. The Organization did not maintain cash balances in excess of FDIC limits in any other financial institution as of June 30, 2024.

Cash restricted for endowment is restricted by a donor. See Note 5 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 barriers are 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 Accounting Standards Codification ("ASC") Subtopic 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 barriers or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of

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Notes to Financial Statements June 30, 2024

an activity and stipulations that are related to the purpose of the agreement. Subtopic 958-605 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 revenue 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.

Due to the nature of the Organization's identified revenue streams, there are no material amounts of outstanding or unsatisfied performance obligations as of June 30, 2024. The accounts receivable balance as of July 1, 2022 was \$1,185,749.

During the year ended June 30, 2024, the Organization derived approximately 35% of its contribution revenue from one donor, and 46% of its government grants from two governmental agencies. All revenue is recorded at the estimated net realizable amounts.

Accounts receivable

The Organization carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for credit losses. The Organization has tracked historical loss information for its trade receivables and compiled historical credit loss percentages for different aging categories (current, 1-30 days past due, 31-60 days past due, 61-90 days past due, and more than 90 days past due). Management believes that the historical loss information it has compiled is a reasonable base on which to determine expected credit losses for trade receivables held at June 30, 2024 because the composition of the trade receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its customers and its lending practices have not changed significantly over time). Additionally, management has determined that the current and reasonable and supportable forecasted economic conditions are consistent with the economic conditions included in the historical information. As a result, the historical loss rates have not been adjusted for differences in current conditions or forecasted changes. As of June 30, 2024, management has determined any allowance would be immaterial. The Organization does not have a policy to accrue interest on accounts receivable or to require collateral or other security to secure the accounts receivable.

As of June 30, 2024, the Organization's accounts receivable consisted of approximately 64% due from one governmental agency which relates to the Organization's Employee Retention Tax Credit ("ERTC"), a refundable tax credit against certain employment taxes equal to 50% or 70% of the qualified wages an eligible employer pays during a specified period, which was recognized as revenue during the year ended June 30, 2023

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

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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, 2024, management has determined any allowance would be immaterial.

As of June 30, 2024, the Organization's grants receivable included approximately 55% due from two donors.

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 risks, such as interest rate, market and credit risks. Due to the 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 investment 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, including in-kind contributions, was 10% for the year ended June 30, 2024.

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Notes to Financial Statements June 30, 2024

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.

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, 2024, 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, fiscal years since 2021 remain open.

Summarized financial information for 2023

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, 2023, 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, 2024 with a useful life of five years. As of June 30, 2024, costs incurred were \$68,500 and accumulated amortization was \$57,083. The intangible assets, net balance as of June 30, 2024 was \$11,417. Estimated annual amortization for the next one year is \$11,417.

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**Notes to Financial Statements
June 30, 2024**

New accounting pronouncement

On July 1, 2023, the Organization adopted Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, and its related amendments. The new standard changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables, from an incurred loss model to a current and expected loss model and adds certain new required disclosures. Under the current and expected loss ("CECL") model, entities recognize credit losses to be incurred over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred. In accordance with ASC 326, the Organization evaluates certain criteria, including aging and historical write-offs, current economic condition of specific customers and future economic conditions to determine the appropriate allowance for credit losses. The adoption of ASC 326 did not have a material impact on the Organization's change in net assets for the year ended June 30, 2024.

Note 2 - Grants receivable

Grants receivable consist of the following as of June 30, 2024:

	Gross promise	Allowance	Net promise	Unamortized discount	Total
Receivable less than 1 year	\$ 6,104,580	\$ -	\$ 6,104,580	\$ -	\$ 6,104,580
Receivable in 1 to 5 years	2,820,000	-	2,820,000	(247,890)	2,572,110
	\$ 8,924,580	\$ -	\$ 8,924,580	\$ (247,890)	\$ 8,676,690

Management believes that credit risk with respect to grants receivable is considered low, as a significant portion of the grant's receivable are from foundations which have been in operation for multiple years and have reported significant assets.

Note 3 - Investments in marketable securities

Investments in marketable securities as of June 30, 2024 are as follows:

	Market value
Equities	\$ 1,287,187
Fixed income	369,813
	1,657,000
Cash and money market	14,981,243
Total investments	\$ 16,638,243

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Notes to Financial Statements June 30, 2024

Note 4 - 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.
- 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, 2024:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income mutual funds	\$ 369,813	\$ 369,813	\$ -	\$ -
Domestic equities	599,050	599,050	-	-
Equity mutual funds	688,137	688,137	-	-
Total	<u>\$ 1,657,000</u>	<u>\$ 1,657,000</u>	<u>\$ -</u>	<u>\$ -</u>

Note 5 - Endowments

The Organization's endowment consists of funds established for a variety of purposes. See Note 9. 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

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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 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.

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**Notes to Financial Statements
June 30, 2024**

Endowment net asset composition by type of fund as of June 30, 2024 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net endowment assets</u>
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>

A summary of changes in endowment net assets for the year ended June 30, 2024 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net endowment assets</u>
Balance, beginning of year	\$ 550,000	\$ 111,477	\$ 661,477
Investment income, net	62,141	-	62,141
Amount appropriated	(62,141)	-	(62,141)
Balance, end of year	<u>\$ 550,000</u>	<u>\$ 111,477</u>	<u>\$ 661,477</u>

Note 6 - Contributed nonfinancial assets

Contributed nonfinancial assets recognized within the statement of activities for the year ended June 30, 2024 were as follows:

	<u>Revenue recognized</u>	<u>Utilization in Programs/ Activities</u>	<u>Donor restrictions</u>	<u>Valuation techniques and inputs</u>
Books	\$ 2,586,119	Programs	None	Fair market value of the asset at the date of donation using comparable resale

Note 7 - Operating lease commitments

The Organization occupies office space under tenant-at-will lease agreements. The Organization is also liable for certain real estate tax increases and operating cost adjustments under the office lease terms. Rent, common area and property tax expenses for the year ended June 30, 2024 was \$60,375.

The Organization also leases equipment for use within its office locations. The Organization's current lease agreements go through fiscal year 2025, and lease expenses are immaterial. Future minimum lease payments for the year ended June 30, 2025 are \$2,700.

Note 8 - Commitments and contingencies

Co-employee relationship

The Organization has a co-employee relationship with Positively Partners, whereby all employees are compensated by Positively Partners. 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, 2024, \$740,238 is owed to Positively Partners, and is included in accrued expenses on the accompanying statement of financial position.

Reach Out and Read, Inc.

**Notes to Financial Statements
June 30, 2024**

The total salaries, fringe benefits and administrative service fees paid under these agreements was \$10,043,867 for the year ended June 30, 2024.

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 9 - 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, 2024, net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for a specified purpose Program	\$ 1,891,430
Subject to the passage of time For periods after June 30, 2024	<u>6,230,753</u>
Total	8,122,183
Endowments subject to the Organization's spending policy and appropriation Investment in perpetuity	<u>111,477</u>
Total net assets with donor restrictions	<u>\$ 8,233,660</u>

Net assets released from restrictions during the year ended June 30, 2024, were \$10,812,375, of which \$5,152,763 was from program restrictions and \$5,659,612 was from time restrictions.

Reach Out and Read, Inc.

Notes to Financial Statements
June 30, 2024

Net assets without donor restrictions

The Organization's net assets without donor restrictions comprise undesignated and Board-designated amounts for the following purposes as of June 30, 2024:

Undesignated	\$ 17,578,653
Board-designated - operating reserve	1,000,000
Board-designated - endowment fund	<u>550,000</u>
Total	<u>\$ 19,128,653</u>

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

Reach Out and Read, Inc.

Notes to Financial Statements June 30, 2024

Note 11 - Liquidity and availability of resources

The following reflects the Organization's financial assets as of June 30, 2024, reduced by amounts not available for general use because of contractual or donor-imposed restrictions and board designations within one year from the statement of financial position date:

Financial assets at year end	
Cash and cash equivalents	\$ 1,932,434
Grants receivable	6,104,580
Accounts receivable	1,366,222
Investments	<u>16,638,243</u>
Total	<u>26,041,479</u>
Less amounts unavailable for general expenditures within one year, due to:	
Purpose restrictions by donors	1,891,430
Time restrictions by donors	<u>6,230,753</u>
Total	<u>8,122,183</u>
Less amounts unavailable to management without board approval	
Board-designated for operating reserve	1,000,000
Board-designated - endowment fund	<u>550,000</u>
Total	<u>1,550,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,369,296</u>

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 12 - 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 \$211,079 for the year ended June 30, 2024.

Reach Out and Read, Inc.

**Notes to Financial Statements
June 30, 2024**

Note 13 - Subsequent events

The Organization has performed an evaluation of subsequent events through March 20, 2025, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2024 that required recognition or disclosure in these financial statements.



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