Reading Is Fundamental

READING IS FUNDAMENTAL, INC.

Financial Statements

For the Years Ended September 30, 2015 and 2014

and
Report Thereon

Reports Required in Accordance with Office of Management and Budget Circular A-133

For the Year Ended September 30, 2015

READING IS FUNDAMENTAL, INC.

TABLE OF CONTENTS
For the Years Ended September 30, 2015 and 2014

Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Reading Is Fundamental, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Reading Is Fundamental, Inc. (RIF), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reading Is Fundamental, Inc. as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matters

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2016, on our consideration of RIF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RIF's internal control over financial reporting and compliance.

Raffa, P.C.

Raffa, P.C.

Washington, DC
February 5, 2016

READING IS FUNDAMENTAL, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2015 and 2014

	2015	2014
ASSETS		
Cash	$ 1,669,307	$ 4,418,085
Pledges receivable, net	80,142	63,000
Receivables from the U.S. Department of Education	-	356,723
Investments	7,801,091	7,927,824
Prepaid expenses and other assets	223,545	230,296
Property, net	183,384	321,472
TOTAL ASSETS	$ 9,957,469	$ 13,317,400
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 69,083	$ 782,857
Book awards payable	425,902	479,662
Accrued payroll and benefits	189,317	170,042
Deferred rent and lease incentives	269,606	337,247
Deposits	63,857	60,657
TOTAL LIABILITIES	1,017,765	1,830,465
Net Assets		
Unrestricted	5,405,249	5,936,725
Temporarily restricted	2,942,845	4,958,600
Permanently restricted	591,610	591,610
TOTAL NET ASSETS	8,939,704	11,486,935
TOTAL LIABILITIES AND NET ASSETS	$ 9,957,469	$ 13,317,400

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

READING IS FUNDAMENTAL, INC.

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
U.S. Department of Education:				
Innovative Approaches to Literacy Program	$ 946,039	$ -	$ -	$ 946,039
Contributions	2,908,283	2,135,035	-	5,043,318
Investment income (loss)	(101,349)	(12,160)	-	(113,509)
Other revenue	79,995	-	-	79,995
Net assets released from restrictions:				
Satisfaction of program restrictions	4,088,630	(4,088,630)	-	-
Satisfaction of time restrictions	50,000	(50,000)	-	-
TOTAL REVENUE AND SUPPORT	7,971,598	(2,015,755)	-	5,955,843
EXPENSES				
Program Services:				
Books for Ownership	3,162,855	-	-	3,162,855
Literacy Services and Other	1,220,290	-	-	1,220,290
Literacy Research	955,595	-	-	955,595
Community Literacy Awareness	440,280	-	-	440,280
Total Program Services	5,779,020	-	-	5,779,020
Supporting Services:				
Management and general	1,192,188	-	-	1,192,188
Fundraising	1,531,866	-	-	1,531,866
Total Supporting Services	2,724,054	-	-	2,724,054
TOTAL EXPENSES	8,503,074	-	-	8,503,074
CHANGE IN NET ASSETS	(531,476)	(2,015,755)	-	(2,547,231)
NET ASSETS, BEGINNING OF YEAR	5,936,725	4,958,600	591,610	11,486,935
NET ASSETS, END OF YEAR	$ 5,405,249	$ 2,942,845	$ 591,610	$ 8,939,704

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

READING IS FUNDAMENTAL, INC.

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
U.S. Department of Education:				
Innovative Approaches to Literacy Program	$ 5,146,359	$ -	$ -	$ 5,146,359
Contributions	3,450,804	2,840,994	-	6,291,798
Donated public service announcements	8,671,967	-	-	8,671,967
Investment income	503,245	60,730	-	563,975
Other revenue	51,969	-	-	51,969
Net assets released from restrictions:				
Satisfaction of program restrictions	4,141,533	(4,141,533)	-	-
Satisfaction of time restrictions	100,000	(100,000)	-	-
TOTAL REVENUE AND SUPPORT	22,065,877	(1,339,809)	-	20,726,068
EXPENSES				
Program Services:				
Books for Ownership	2,860,316	-	-	2,860,316
Literacy Services and Other	1,206,760	-	-	1,206,760
Literacy Research	4,853,530	-	-	4,853,530
Community Literacy Awareness	10,043,189	-	-	10,043,189
Total Program Services	18,963,795	-	-	18,963,795
Supporting Services:				
Management and general	1,163,121	-	-	1,163,121
Fundraising	1,452,842	-	-	1,452,842
Total Supporting Services	2,615,963	-	-	2,615,963
TOTAL EXPENSES	21,579,758	-	-	21,579,758
CHANGE IN NET ASSETS	486,119	(1,339,809)	-	(853,690)
NET ASSETS, BEGINNING OF YEAR	5,450,606	6,298,409	591,610	12,340,625
NET ASSETS, END OF YEAR	$ 5,936,725	$ 4,958,600	$ 591,610	$ 11,486,935

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

READING IS FUNDAMENTAL, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014
Increase (Decrease) in Cash

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,547,231)	$ (853,690)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	138,088	191,826
Unrealized losses (gains) on investments	548,113	(143,043)
Realized gains on sales of investments	(310,477)	(316,256)
Changes in assets and liabilities:		
Pledges receivable	(17,142)	319,508
Receivables from the U.S. Department of Education	356,723	404,088
Prepaid expenses and other assets	6,751	(28,679)
Accounts payable and accrued expenses	(713,774)	191,177
Book awards payable	(53,760)	154,263
Accrued payroll and benefits	19,275	(4,172)
Deferred rent and lease incentives	(67,641)	(16,897)
Deposits	3,200	-
NET CASH USED IN OPERATING ACTIVITIES	(2,637,875)	(101,875)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property	-	(24,220)
Proceeds from maturities and sale of investments	1,296,797	1,557,717
Purchases of investments	(1,407,700)	(1,641,248)
NET CASH USED IN INVESTING ACTIVITIES	(110,903)	(107,751)
NET DECREASE IN CASH	(2,748,778)	(209,626)
CASH, BEGINNING OF YEAR	4,418,085	4,627,711
CASH, END OF YEAR	$ 1,669,307	$ 4,418,085

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

(1) Mission, Organization, Programs and Funding

(a) Mission

Reading Is Fundamental, Inc. (RIF) transforms lives through the power of books. By providing children in need with access to and the choice of high-quality books and enriching literacy resources, RIF empowers young minds to embrace the world of reading and learning. Through a national network of teachers, parents and community volunteers, RIF's programs provide books and other essential literacy resources to children at no cost to them or their families. RIF focuses its highest priority on the nation's most at-risk children from birth to age eight. These activities are funded primarily through grants and contributions.

(b) Organization

RIF works with over 1,000 local RIF programs located in the United States and U.S. territories. Each local RIF program is independently managed and is a separate legal entity from RIF. The accompanying financial statements do not include the assets, liabilities or transactions of these independently managed local RIF programs.

Each local RIF program operates one or more of RIF's program services that are described below.

(c) RIF Program Services

Literacy Research

In fiscal year 2015, RIF completed a two-year evaluation of the Department of Education-funded program model, the Innovative Approaches to Literacy Program (the IAL). The IAL supported high quality programs designed to develop and improve literacy skills for children and students from birth through 12th grade within the attendance boundaries of high-need local educational agencies and schools. Under the IAL, RIF implemented a high-quality research-based plan for an innovative approach to improve childhood literacy that includes book distributions, book collections for classrooms and media centers in 145 elementary schools, literacy activities, teacher support, parent involvement, and a quasi-experimental design, reaching children and families in 15 states and the District of Columbia.

Books for Ownership

In RIF's Books for Ownership (BFO) program, a local RIF program operates the BFO service and annually conducts between two and five book distributions in which participating children each select a book to keep. Each book distribution also includes motivational activities designed to encourage the participating children to read for pleasure.

Community Literacy Awareness

RIF conducts multidisciplinary projects that are tailored to the specific needs of individual communities. These projects combine the distribution of books to children, similar to the BFO services, with elements of other program services of RIF. A multidisciplinary project is usually funded by a single donor.

Continued

(1) Mission, Organization, Programs and Funding (continued)

(c) RIF Program Services (continued)

Literacy Services and Other Programs

RIF's literacy services include family and community engagement and literacy training for educators and community organizations. Family and community engagement activities are designed to help parents take a leading role in encouraging their children's literacy development. With the guidance of RIF's volunteers, parents participate in workshops, book distributions and reading celebrations.

RIF conducts literacy training for early childhood educators. This training is designed to support children's emerging language and literacy skills as well as include parents as their children's first teachers. The training is done through a "train the trainer" model that prepares participants to return to their communities and deliver the training to their colleagues and communities.

Each year, RIF solicits nominations from around the country for its Volunteer of the Year Awards (VOYA) under its volunteer recognition program. A panel of judges select winners based upon the individual's demonstrated concern for children and education, exceptional dedication to fulfilling RIF's mission, and development of innovative programs that encourage family and community involvement. The winners are honored at a celebration in Washington, DC.

RIF hosts other literacy events which help promote literacy and inform others about its mission.

RIF contracts with independent outside experts to evaluate RIF's program activities to identify areas of need and establish procedures for continuous quality improvement.

(2) Summary of Significant Accounting Policies

(a) Investments

Investments are reported at fair value and consist of mutual funds, money market funds held for investment purposes and certificates of deposit. 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. Gains and losses on investments, including changes in fair value, are reported as investment income in the accompanying statements of activities as increases or decreases in unrestricted net assets unless their use is restricted by donors.

(2) Summary of Significant Accounting Policies (continued)

(b) Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America (GAAP) and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of September 30, 2015 and 2014, only RIF's investments, as described in Note 3 of these financial statements, were measured at fair value on a recurring basis.

(c) Property and Related Depreciation and Amortization

Property is recorded at cost for purchases and at estimated fair value when acquired by contribution. Depreciation for furniture, equipment and software is recorded on a straight-line basis over the useful lives of the assets, which are estimated to be five years with no salvage value. Costs related to developing internal-use software are capitalized in accordance with FASB ASC Topic 350, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, while costs incurred during the preliminary and post-implementation operation stages are expensed. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred.

Continued

(2) Summary of Significant Accounting Policies (continued)

(d) Net Asset Classifications

The net assets of RIF are classified and reported as follows:

Unrestricted net assets – Represent the portion of net assets that are not subject to donor-imposed stipulations, which are used for RIF's general operations. Unrestricted net assets also include amounts that have been designated by the Board of Directors for a specific purpose.

Temporarily restricted net assets – Represent the portion of net assets subject to donor-imposed stipulations that may, or will, be met either by RIF's actions and/or by the passage of time.

Permanently restricted net assets – Represent the portion of net assets subject to donor-imposed stipulations that the gift be maintained by RIF in perpetuity. The donors of these assets permit RIF to use all or part of the income earned on related investments for general operations or for specific purposes stated by the donors.

(e) Federal Contract Revenue

Revenue from a cost-reimbursable contract with the U.S. Department of Education is recognized as costs are incurred on the basis of direct costs plus allowable management fees and indirect costs. Revenue recognized on these contracts that has not been collected from the U.S. government is reflected as receivables from the U.S. Department of Education in the accompanying statements of financial position.

(f) Contributions

Contributions, including in-kind services, are recognized as revenue when unconditional promises are made. Conditional contributions are recognized as revenue when donor-imposed conditions are substantially met. Revenue recognized on contributions that have been committed to RIF but have not been received is reflected as pledges receivable in the accompanying statements of financial position. Contributions received having donor-imposed restrictions as to their use, or those that are intended to fund future periods, are reported as increases in temporarily restricted net assets. Donor restrictions are considered released, and net assets are reclassified to unrestricted net assets, when those restrictions are met and/or the stipulated time periods have elapsed. These amounts are shown as net assets released from restrictions in the accompanying statements of activities.

Contributions of long-lived assets or of cash and other assets restricted to the purchase of long-lived assets are reported as restricted support that increases temporarily restricted net assets. Depreciation is recorded over the asset's useful life, and net assets are reclassified from temporarily restricted to unrestricted as depreciation is recognized.

(2) Summary of Significant Accounting Policies (continued)

(g) Donated Public Service Announcements

Donated public service announcements (PSAs) are recognized at fair value. The revenue reflected in the accompanying statements of activities is offset by like amounts included in expenses related to Community Literacy Awareness.

(h) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Accordingly, actual results may differ from management's estimates.

(i) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated proportionately among the programs and supporting services in proportion to salaries incurred for each program.

(j) Endowment Funds

FASB ASC Topic 958, *Not-for-Profit Entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective January 23, 2008, the District of Columbia enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. A key component of the ASC is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The ASC also requires disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds). RIF made the required disclosures in Note 8.

(3) Investments

Investments, at fair value, consisted of the following as of September 30:

	2015	2014
Equity mutual funds	$ 4,698,552	$ 4,896,386
Corporate and government bond mutual funds	2,122,777	2,101,238
Certificates of deposit	500,000	500,000
Money market funds	479,762	430,200
Total Investments	$ 7,801,091	$ 7,927,824

(3) Investments (continued)

Investment income consisted of the following for the years ended September 30:

	2015	2014
Interest from cash	$ 756	$ 755
Interest and dividend income from investments	123,371	103,921
Realized gains	310,477	316,256
Unrealized gains (losses)	(548,113)	143,043
Investment management fees	(27,527)	(24,440)
Investment Income (Loss), Net	$ (141,036)	$ 539,535

Investment management fees are included in the professional services line item in the supplemental schedule of functional expenses for the years ended September 30, 2015 and 2014.

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2015:

	Fair Value Total	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity mutual funds	$ 4,698,552	$ 4,698,552	$ -	$ -
Corporate and government bond mutual funds	2,122,777	2,122,777	-	-
Certificates of deposit	500,000	-	500,000	-
Money market funds	479,762	479,762	-	-
Total	$ 7,801,091	$ 7,301,091	$ 500,000	$ -

Continued

(3) Investments (continued)

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2014:

	Fair Value Total	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity mutual funds	$ 4,896,386	$ 4,896,386	$ -	$ -
Corporate and government bond mutual funds	2,101,238	2,101,238	-	-
Certificates of deposit	500,000	-	500,000	-
Money market funds	430,200	430,200	-	-
Total	$ 7,927,824	$ 7,427,824	$ 500,000	$ -

RIF used the following methods and significant assumptions to estimate fair value for investments recorded at fair value:

Equity mutual funds, corporate and government bond mutual funds and money market funds – Valued at the net asset value (NAV) of shares held at year-end and based on quoted prices in active markets. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of outstanding shares. The NAV is a quoted price in an active market and is classified within Level 1 of the fair value hierarchy.

Certificates of deposit – Securities with fixed maturities, other than U.S. Treasury securities, generally do not trade on a daily basis. The fair value estimates of such fixed maturity investments are based on observable market information, rather than quoted market prices. Accordingly, the estimates of fair value for such fixed maturity investments, as provided by the pricing service, are included in the amount disclosed in Level 2 of the hierarchy.

(4) Receivables

Pledges receivable consist of amounts due from foundations and corporations. Pledges receivable totaled $80,142 and $63,000, respectively, at September 30, 2015 and 2014, and are considered fully collectible and due within one year.

There was no receivable from the U.S. Department of Education at September 30, 2015. Receivables from the U.S. Department of Education totaled $356,723 at September 30, 2014, and were considered fully collectible and due within one year.

Continued

(5) Contributed Materials and Services

There was no contribution of PSAs for the year ended September 30, 2015. For the year ended September 30, 2014, RIF recognized approximately $8,672,000 in revenue related to contributions of PSAs and other materials to support literacy programs. The reported fair value of these PSAs and other materials is based on prices provided by the donors and is included in unrestricted revenue and support and program services expenses in the accompanying statements of activities.

Additionally, RIF recognized approximately $38,000 and $526,000, respectively, of donated legal and consulting services for the years ended September 30, 2015 and 2014. These amounts are included in unrestricted contributions revenue and management and general expenses in the accompanying statements of activities.

(6) Property

Property consisted of the following as of September 30:

	2015	2014
Furniture and equipment	$ 476,207	$ 484,483
Computer software and website design	2,152,419	2,152,419
Total Property	2,638,626	2,636,902
Less: Accumulated Depreciation and Amortization	(2,445,242)	(2,315,430)
Property, Net	$ 183,384	$ 321,472

Depreciation and amortization expense was $138,088 and $191,826 for the years ended September 30, 2015 and 2014, respectively.

(7) Net Assets

Net assets consisted of the following as of September 30:

(a) Unrestricted Net Assets

	2015	2014
Undesignated	$ 4,405,249	$ 5,936,725
Board-designated:		
Read for Success[1]	1,000,000	-
Total Unrestricted Net Assets	$ 5,405,249	$ 5,936,725

Continued

(7) Net Assets (continued)

(a) Unrestricted Net Assets (continued)

[1] In September 2015, the Board of Directors designated $1 million of unrestricted net assets to be used to support initial program awareness activities and fund matching grants to eligible schools to implement the Read for Success program. The funds are anticipated to be used in fiscal years 2016 and 2017.

(b) Temporarily Restricted Net Assets

As of September 30, 2015 and 2014, temporarily restricted net assets generally consisted of corporate grants and other private gifts designated by donors to be used for specific literacy programs. The composition of temporarily restricted net assets is as follows as of September 30:

	2015	2014
Books for Ownership	$ 2,072,030	$ 3,864,191
Community Literacy Awareness	462,189	648,786
Literacy Services and Other	218,746	274,939
Unrestricted contributions for use in subsequent years	100,000	50,000
Accumulated earnings on endowment funds not appropriated for expenditure	89,880	120,684
Total Temporarily Restricted Net Assets	$ 2,942,845	$ 4,958,600

(8) Endowment Funds

RIF's endowment includes several donor-restricted endowment funds. As required by GAAP, 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.

(a) Interpretation of Relevant Law and Endowment Activity

RIF's Board of Directors has interpreted 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, RIF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RIF's Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA.

Continued

(8) Endowment Funds (continued)

(a) Interpretation of Relevant Law and Endowment Activity (continued)

In accordance with UPMIFA, RIF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of RIF and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- RIF's other resources; and
- RIF's investment policies.

For the year ended September 30, 2015, RIF's endowment had the following activity:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 120,684	$ 591,610	$ 712,294
Interest and dividends	-	13,019	-	13,019
Amounts appropriated for expenditure	-	(18,533)	-	(18,533)
Net depreciation	-	(25,290)	-	(25,290)
Change in net assets	-	(30,804)	-	(30,804)
Endowment Net Assets, End of Year	$ -	$ 89,880	$ 591,610	$ 681,490

For the year ended September 30, 2014, RIF's endowment had the following activity:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 69,531	$ 591,610	$ 661,141
Interest and dividends	-	11,205	-	11,205
Amounts appropriated for expenditure	-	(9,577)	-	(9,577)
Net appreciation	-	49,525	-	49,525
Change in net assets	-	51,153	-	51,153
Endowment Net Assets, End of Year	$ -	$ 120,684	$ 591,610	$ 712,294

Continued

(8) Endowment Funds (continued)

(a) Interpretation of Relevant Law and Endowment Activity (continued)

As of September 30, 2015 and 2014, RIF's endowment was entirely donor-restricted and had the following net asset composition:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Net Assets, End of Year	$ -	$ 89,880	$ 591,610	$ 681,490

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Net Assets, End of Year	$ -	$ 120,684	$ 591,610	$ 712,294

The permanently restricted and temporarily restricted endowment net assets consisted of the following as of September 30:

	2015	2014
The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA:		
General endowment	$ 349,913	$ 349,913
Volunteer of the Year Awards	127,504	127,504
Katherine Kirby Endowment	114,193	114,193
Total Endowment Funds Classified as Permanently Restricted Net Assets	$ 591,610	$ 591,610
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	$ 51,324	$ 58,289
With purpose restrictions	38,556	62,395
Total Endowment Funds Classified as Temporarily Restricted Net Assets	$ 89,880	$ 120,684

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires RIF to retain as a fund of perpetual duration. As of September 30, 2015 and 2014, there were no endowment funds with deficiencies.

(8) Endowment Funds (continued)

(c) Return Objectives and Strategies

RIF has adopted an investment policy that emphasizes long-term growth, with a secondary objective of providing current income. Accordingly, RIF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

Earnings from the endowment funds are recorded and made available for operations through an annual allocation of up to 5% of the fund. The allocation is based on a three-year rolling average of the investment's market value, determined as of March 31 of the year prior to the budget year. Each year, as part of RIF's budgeting process, RIF reviews the appropriate level of payout for the following fiscal year. Fund disbursements are paid at the end of each quarter in the fiscal year. Each fund's operating income is utilized as set forth in the specific applicable endowment agreement. The general endowment fund's income is utilized for general operations.

(9) Pension Plan

A substantial number of employees are eligible to participate in RIF's 403(b) retirement plan (the Plan). Under the Plan, RIF contributes stipulated percentages of salary, which are used to purchase individual annuities, the rights to which are immediately vested with the employees. For the years ended September 30, 2015 and 2014, total pension expense was approximately $82,000 and $75,000, respectively.

(10) Lease Commitments

In fiscal year 2012, RIF subleased its original office space to an organization (referred to as the Organization) and entered into a sublease agreement for new office space with the Organization. In both subleases, RIF and the Organization assumed the conditions of the original lease and took the existing leasehold improvements and furniture in the office space they were assuming.

RIF recognized all costs associated with the subleasing of its original office space and offset those costs against the expected revenue associated with the sublease. The terms of the leases and subleases are described below. Rent expense, adjusted for lease incentives, is recognized on a straight-line basis over the terms of the respective leases. The net difference between the straight-line rental expense and the monthly cash payment is recognized as deferred rent and lease incentives in the accompanying statements of financial position. Total occupancy expense, which includes RIF's portion of the rent for the noncancelable office sublease and lease, a cancelable storage space lease, office equipment leases, property and liability insurance, and maintenance of computers and other office equipment was approximately $547,000 and $596,000 for the years ended September 30, 2015 and 2014, respectively.

Continued

(10) Lease Commitments (continued)

(a) Operating Sublease for New Office Space on Rhode Island Avenue

In August 2012, RIF entered into a noncancelable operating sublease with the Organization for office space located on Rhode Island Avenue in Northwest Washington, DC. The sublease is set to expire in September 2017 and includes a lease incentive to transfer the existing furniture and equipment in the office space valued at $32,135, as well as yearly rental increases. The lease requires a letter of credit in the amount of $500,000, which is secured by the certificates of deposit included in investments in the accompanying statements of financial position. The future minimum lease payments owed by RIF under this sublease are as follows as of September 30, 2015:

For the Years Ending September 30,	
2016	$ 522,551
2017	543,453
Total	$ 1,066,004

(b) Exit of Original Leased Office Space – 23rd Street

In May 2010, RIF entered into a lease for office space, located on 23rd Street in Northwest Washington, DC, under a noncancelable operating lease that expires in October 2020. The office lease included incentives of up to $907,700, such as a building improvement allowance, as well as yearly rental increases. The lease requires a letter of credit in the amount of $68,000, which is secured by a money market fund that is included in investments in the accompanying statements of financial position.

Beginning in August 2012, RIF entered into a noncancelable sublease agreement with the Organization, an independent third party, to sublease the office space located on 23rd Street in Northwest Washington, DC. The agreement expires in October 2020. If the Organization were to default on the sublease agreement at any time, RIF would continue to be responsible for the total amount due under its lease. The office lease includes yearly rental increases. The sublease requires a security deposit in the amount of $60,657 which is included in deposits in the accompanying statements of financial position.

As of September 30, 2015, future minimum rental payments owed by RIF under the lease, net of sublease income, are as follows:

For the Years Ending September 30,	Lease Payments	Sublease Income	Net
2016	$ 850,938	$ (790,053)	$ 60,885
2017	872,224	(809,824)	62,400
2018	894,054	(872,230)	21,824
2019	916,429	(894,055)	22,374
2020	939,348	(916,424)	22,924
Thereafter	79,409	(77,521)	1,888
Total	$ 4,552,402	$ (4,360,107)	$ 192,295

Continued

(10) Lease Commitments (continued)

(b) Exit of Original Leased Office Space – 23rd Street (continued)

At the onset of the sublease to the Organization, RIF wrote off the leasehold incentives related to the office space at 23rd Street in Northwest Washington, DC. Rent expense and sublease rental income, adjusted for lease incentives, is recognized on a straight-line basis over the terms of each lease. The net difference between the total straight-line rental expense and the total straight-line rental income resulted in a net deferred rent asset in the amount of $444,376 and $440,914 as of September 30, 2015 and 2014, respectively. The deferred rent asset has been netted against total deferred rent and lease incentives in the accompanying statements of financial position and will be amortized over the course of the leases.

(11) Risks and Uncertainties

(a) Concentration of Credit Risk

RIF maintains its cash, as well as certificates of deposit reported under investments, with commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of $250,000 per depositor per institution. As of September 30, 2015 and 2014, RIF had $2,380,170 and $5,144,721, respectively, composed of demand deposits and certificates of deposit, which exceeded the maximum limit insured by the FDIC by $2,130,170 and $4,894,721, respectively.

(b) Concentration of Revenue

Approximately 16% and 43%, respectively, of RIF's 2015 and 2014 revenue before donated public service announcements was received from federal awards which expired in 2015. In addition, 31% and 22% of RIF's revenue before donated public service announcements in 2015 and 2014, respectively, came from one corporate donor.

(12) Contingencies

(a) Office of Management and Budget Circular A-133

RIF has instructed its independent auditors to audit its applicable federal program for the year ended September 30, 2015, in compliance with Circular A-133, issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal agencies of the independent auditor's reports for fiscal year 2015 will not have a material effect on RIF's financial position as of September 30, 2015, or its results of operations for the year then ended.

Continued

(12) Contingencies (continued)

(b) Provisional Indirect Cost Rates

Billings under cost-reimbursable government grants and contracts are calculated using rates that permit recovery of indirect costs, in accordance with RIF's negotiated indirect cost rate agreement with the U.S. Department of Education. These rates are subject to final determination by the U.S. Department of Education six months after the end of each fiscal year. For the year ended September 30, 2015, RIF's final indirect cost recovery rate is due by March 2016. In the opinion of management, adjustments, if any, arising from the final determination of the rate by the U.S. Department of Education will not have a material effect on RIF's financial position as of September 30, 2015.

(c) Letters of Credit

RIF obtained standby letters of credit in the amount of $568,000 in connection with its leases for office space. As of September 30, 2015, RIF has a money market fund returning 0.2% to collateralize the standby letter of credit. RIF recognizes that this is a contingent liability, which would be recorded if a creditor submits a draft on the letter of credit with the financial institution guaranteeing the letter.

(13) Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, RIF is exempt from federal taxes on income other than net unrelated business income. For the years ended September 30, 2015 and 2014, no provision for income taxes was required, as RIF had no net material unrelated business income.

RIF follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. RIF performed an evaluation of uncertain tax positions for the years ended September 30, 2015 and 2014, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of September 30, 2015, the statute of limitations for tax years ended September 30, 2012 through September 30, 2014 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which RIF files tax returns. It is RIF's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of September 30, 2015 and 2014, RIF had no accruals for interest and/or penalties.

(14) Subsequent Events

In preparing the financial statement, RIF has evaluated events and transactions for potential recognition or disclosure through February 5, 2016, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

READING IS FUNDAMENTAL, INC.

SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2015
(With Summarized Financial Information for the Year Ended September 30, 2014)

	Program Services					Supporting Services				
	Books for Ownership	Literacy Services and Other	Literacy Research	Community Literacy Awareness	Total Program Services	Management and General	Fundraising	Total Supporting Services	2015 Total	2014 Total
Books for local programs	$ 2,815,734	$ 86,066	$ 512,387	$ 20,109	$ 3,434,296	$ 107	$ 209	$ 316	$ 3,434,612	$ 6,417,500
Salaries and benefits	247,994	541,599	190,165	211,547	1,191,305	570,073	560,762	1,130,835	2,322,140	2,294,249
Professional services	18,495	313,465	100,957	90,259	523,176	360,785	482,291	843,076	1,366,252	1,850,324
Rent and other occupancy	57,262	125,060	44,315	48,850	275,487	131,633	139,591	271,224	546,711	596,222
Printing and reproduction	1,563	14,240	66,990	45,511	128,304	1,920	164,493	166,413	294,717	578,339
Depreciation and amortization	7,386	85,054	5,664	6,301	104,405	16,981	16,702	33,683	138,088	191,826
Communication services	1,949	7,114	2,050	3,394	14,507	6,661	116,747	123,408	137,915	162,166
Travel	1,899	23,243	24,897	5,059	55,098	13,854	23,832	37,686	92,784	141,702
Computer services	9,657	21,090	7,405	8,238	46,390	22,200	21,855	44,055	90,445	60,770
Donated services and PSAs	-	-	-	-	-	38,313	-	38,313	38,313	9,197,902
Other services	-	-	-	-	-	27,555	-	27,555	27,555	24,483
Supplies	916	3,359	765	1,012	6,052	2,106	5,384	7,490	13,542	59,275
Bad debt expense	-	-	-	-	-	-	-	-	-	5,000
TOTAL EXPENSES	$ 3,162,855	$ 1,220,290	$ 955,595	$ 440,280	$ 5,779,020	$ 1,192,188	$ 1,531,866	$ 2,724,054	$ 8,503,074	$ 21,579,758

Raffa

Certified Public Accountants

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*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Reading Is Fundamental, Inc.

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Reading Is Fundamental, Inc. (RIF), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2016.

Internal Control Over Financial Reporting

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

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

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

Continued

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Raffa, P.C.

Raffa, P.C.

Washington, DC
February 5, 2016

Raffa

Certified Public Accountants

REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Reading Is Fundamental, Inc.

Report on Compliance for Each Major Federal Program

We have audited Reading Is Fundamental, Inc.'s (RIF) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of RIF's major federal programs for the year ended September 30, 2015. RIF's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of RIF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about RIF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of RIF's compliance.

Opinion on Each Major Federal Program

In our opinion, RIF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Continued

Report on Internal Control Over Compliance

Management of RIF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RIF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RIF's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Raffa, P.C.

Raffa, P.C.

Washington, DC
February 5, 2016

READING IS FUNDAMENTAL, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Grant Number	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Innovative Approaches to Literacy Program:			
RIF Summer Success Model	S215G120028	84.215G	$ 946,039
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 946,039

See accompanying notes to this schedule.

READING IS FUNDAMENTAL, INC.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2015

1. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred. Expenses are incurred using the cost accounting principles contained in U.S. Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*. Under those cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

READING IS FUNDAMENTAL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	X	Unmodified	____	Qualified
	____	Adverse	____	Disclaimer

Internal control over financial reporting:

• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None Reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	X	Unmodified	____	Qualified
	____	Adverse	____	Disclaimer

Internal control over major programs:

• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None Reported
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	____	Yes	X	No

Identification of Major Program(s):

CFDA Number / Grant Number	Program Title
84.215G / S215G120028	Innovative Approaches to Literacy Program: RIF Summer Success Model

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as a low-risk auditee?	X	Yes	____	No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None required to be reported.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.