



Reading Is Fundamental

READING IS FUNDAMENTAL, INC.

Financial Statements

For the Years Ended September 30, 2016 and 2015



**and
Report Thereon**



READING IS FUNDAMENTAL, INC.

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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, 2016 and 2015, 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. 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, 2016 and 2015, 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

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses for the year ended September 30, 2016, on page 22 is presented for purposes of additional analysis and is 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.

Raffa, P.C.

Raffa, P.C.

Washington, DC
January 26, 2017

READING IS FUNDAMENTAL, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2016 and 2015

	2016	2015
ASSETS		
Cash	\$ 742,899	\$ 1,669,307
Pledges receivable, net	1,939,866	80,142
Investments	6,430,607	7,801,091
Prepaid expenses and other assets	198,769	223,545
Property, net	103,411	183,384
TOTAL ASSETS	\$ 9,415,552	\$ 9,957,469
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 83,158	\$ 69,083
Book awards payable	181,850	425,902
Accrued payroll and benefits	221,441	189,317
Deferred revenue	40,000	-
Deferred rent and lease incentives	180,381	269,606
Deposits	63,857	63,857
TOTAL LIABILITIES	770,687	1,017,765
Net Assets		
Unrestricted	4,813,408	5,405,249
Temporarily restricted	3,239,847	2,942,845
Permanently restricted	591,610	591,610
TOTAL NET ASSETS	8,644,865	8,939,704
TOTAL LIABILITIES AND NET ASSETS	\$ 9,415,552	\$ 9,957,469

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

READING IS FUNDAMENTAL, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 2,752,783	\$ 2,680,180	\$ -	\$ 5,432,963
Donated goods and services	1,641,510	-	-	1,641,510
Investment income	544,608	59,607	-	604,215
Contract revenue	515,219	-	-	515,219
Other revenue	110,777	-	-	110,777
Net assets released from restrictions:				
Satisfaction of program restrictions	2,342,785	(2,342,785)	-	-
Satisfaction of time restrictions	100,000	(100,000)	-	-
TOTAL REVENUE AND SUPPORT	<u>8,007,682</u>	<u>297,002</u>	<u>-</u>	<u>8,304,684</u>
EXPENSES				
Program Services:				
Community Literacy Awareness	2,723,100	-	-	2,723,100
Books for Ownership	1,752,982	-	-	1,752,982
Literacy Services and Other	1,226,201	-	-	1,226,201
Total Program Services	<u>5,702,283</u>	<u>-</u>	<u>-</u>	<u>5,702,283</u>
Supporting Services:				
Management and general	1,286,055	-	-	1,286,055
Fundraising	1,611,185	-	-	1,611,185
Total Supporting Services	<u>2,897,240</u>	<u>-</u>	<u>-</u>	<u>2,897,240</u>
TOTAL EXPENSES	<u>8,599,523</u>	<u>-</u>	<u>-</u>	<u>8,599,523</u>
CHANGE IN NET ASSETS	(591,841)	297,002	-	(294,839)
NET ASSETS, BEGINNING OF YEAR	<u>5,405,249</u>	<u>2,942,845</u>	<u>591,610</u>	<u>8,939,704</u>
NET ASSETS, END OF YEAR	<u>\$ 4,813,408</u>	<u>\$ 3,239,847</u>	<u>\$ 591,610</u>	<u>\$ 8,644,865</u>

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	2,869,970	2,135,035	-	5,005,005
Investment loss	(101,349)	(12,160)	-	(113,509)
Donated goods and services	38,313	-	-	38,313
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:				
Community Literacy Awareness	440,280	-	-	440,280
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
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.

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2016 and 2015
Increase (Decrease) in Cash

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (294,839)	\$ (2,547,231)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	84,060	138,088
Unrealized losses (gains) on investments	(328,705)	548,113
Realized gains on sales of investments	(165,121)	(310,477)
Changes in assets and liabilities:		
Pledges receivable	(1,859,724)	(17,142)
Receivables from the U.S. Department of Education	-	356,723
Prepaid expenses and other assets	24,776	6,751
Accounts payable and accrued expenses	14,075	(713,774)
Book awards payable	(244,052)	(53,760)
Accrued payroll and benefits	32,124	19,275
Deferred revenue	40,000	-
Deferred rent and lease incentives	(89,225)	(67,641)
Deposits	-	3,200
	(2,786,631)	(2,637,875)
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property	(4,087)	-
Proceeds from maturities and sale of investments	5,045,765	1,296,797
Purchases of investments	(3,181,455)	(1,407,700)
	1,860,223	(110,903)
NET CASH PROVIDED BY (USED IN) IN INVESTING ACTIVITIES		
NET DECREASE IN CASH	(926,408)	(2,748,778)
CASH, BEGINNING OF YEAR	1,669,307	4,418,085
CASH, END OF YEAR	\$ 742,899	\$ 1,669,307

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

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(1) Mission, Organization, Programs and Funding

(a) *Mission*

Reading Is Fundamental, Inc. (RIF) is committed to a literate America by inspiring a passion for reading among children, providing quality content and resources to make an impact, and engaging communities in the solution to give every child the fundamentals for success. RIF creates innovative literacy solutions to ensure all children have the opportunity to read and succeed. Through arrangements with book publishers and distributors, RIF maximizes the impact of every dollar and donation, helping children achieve their full potential through the life-changing power of literacy. RIF provides books and supporting literacy resources to reach children where they are in need with the help of thousands of volunteers and local programs throughout the country.

(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*

Community Literacy Awareness

RIF is the leading champion for children's literacy through meaningful research, quality content and equal access to impact all children with the power of reading. RIF believes that every child deserves an opportunity to own books, learn how to read and obtain the fundamental building blocks to achieve his or her highest potential. 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 Books for Ownership services, with elements of other program services of RIF. A multidisciplinary project is usually funded by a single donor.

Books for Ownership

At reading celebrations held multiple times each year, children choose new books and participate in reading activities with teachers, parents, volunteers and community members. The books are free to the children. These events educate, build community and inspire children to make greater choices for themselves – to choose learning, and to choose success in school and in life.

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.

READING IS FUNDAMENTAL, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015**

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

(c) RIF Program Services (continued)

Literacy Services and Other Programs (continued)

In fiscal year 2016, RIF introduced Read for Success, an evidence-based program designed to improve reading proficiency and combat summer learning loss – a contributing factor to the achievement gap. Tested over two years among 33,000 students from 16 states as part of the Innovative Approaches to Literacy grant from the U.S. Department of Education, RIF’s reading program helped reverse the trend of summer learning loss for more than half of participating students in the study. In addition, 57% of students saw gains in reading proficiency when tested from spring to fall. Read for Success is centered around motivating children to read by providing access to high-quality classroom book collections, summer books for students to choose and own, enriching STEM-themed (science, technology, engineering, the arts and mathematics) classroom activities, professional development for teachers and parent engagement.

RIF conducts literacy training for early childhood educators. This training is designed to support children’s emerging language and literacy skills as well as including 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.

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. This grant with the Department of Education ended during fiscal year 2015.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(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.

(b) **Fair Value of Financial Instruments**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, 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, 2016 and 2015, 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

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies (continued)

(c) *Property and Related Depreciation and Amortization (continued)*

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.

(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) *Contract Revenue*

RIF delivers programming to certain purchasers by contract. Revenue generated from such contracts is recognized as services are performed is included in contract revenue in the accompanying statements of activities. Funds received under these contracts that have not yet been earned are reflected as deferred revenue in the accompanying statements of financial position.

(f) *Contributions*

Contributions, including in-kind services, are recognized as revenue when unconditional promises to give 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 with 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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies (continued)

(f) Contributions (continued)

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.

(g) Donated goods and services

Donated goods and services represent the value of donated advertising – public service announcements (PSAs) and legal assistance. Donations are recorded based on their fair value at the date of donation and are included in community literacy awareness program and in management and general expenses in the accompanying statement of activities.

(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.

(3) Investments

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

	2016	2015
Equity mutual funds	\$ 3,784,532	\$ 4,698,552
Corporate and government bond mutual funds	1,230,412	2,122,777
Certificates of deposit	500,000	500,000
Money market funds	915,663	479,762
Total Investments	\$ 6,430,607	\$ 7,801,091

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

	2016	2015
Interest from cash	\$ 833	\$ 756
Interest and dividend income from investments	109,556	123,371
Realized gains	165,121	310,477
Unrealized gains (losses)	328,705	(548,113)
Investment management fees	(29,521)	(27,527)
Investment Income (Loss), Net	\$ 574,694	\$ (141,036)

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(3) Investments (continued)

Investment management fees are included in the other services line item in the supplemental schedule of functional expenses for the years ended September 30, 2016 and 2015.

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2016, aggregated by the fair value hierarchy level within which those measurements were made:

	Total Fair Value	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	\$ 3,784,532	\$ 3,784,532	\$ -	\$ -
Corporate and government bond mutual funds	1,230,412	1,230,412	-	-
Certificates of deposit	500,000	-	500,000	-
Money market funds	<u>915,663</u>	<u>915,663</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 6,430,607</u>	<u>\$ 5,930,607</u>	<u>\$ 500,000</u>	<u>\$ -</u>

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2015, aggregated by the fair value hierarchy level with which those measurements were made:

	Total Fair Value	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	<u>479,762</u>	<u>479,762</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 7,801,091</u>	<u>\$ 7,301,091</u>	<u>\$ 500,000</u>	<u>\$ -</u>

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(3) Investments (continued)

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) Pledges Receivable

Pledges receivable consist of amounts due from foundations, trusts, corporations and individuals. As of September 30, 2016, the amounts were scheduled to be paid as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 1,779,000	\$ 80,142
One to five years	<u>165,000</u>	<u>-</u>
Total Pledge Receivable	1,944,000	80,142
Less: Discount on Multi-year Pledges	<u>(4,134)</u>	<u>-</u>
Pledges Receivable, Net	<u>\$ 1,939,866</u>	<u>\$ 80,142</u>

As of September 30, 2016 and 2015, pledges receivable were deemed fully collectible. Receivables due in one to five years are shown at the present value of estimated future cash flows using a discount rate of 2.57%, which is based on available data for treasury bill interest rates for the year in which outstanding pledges were received with an additional 2% to account for risk.

(5) Donated Goods and Services

For the year ended September 30, 2016, RIF recognized approximately \$1,607,000 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. There was no contribution of PSAs for the year ended September 30, 2015.

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(5) Donated Goods and Services (continued)

Additionally, RIF recognized approximately \$35,000 and \$38,000, respectively, of donated legal and consulting services for the years ended September 30, 2016 and 2015. 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:

	2016	2015
Furniture and equipment	\$ 470,205	\$ 476,207
Computer software and website design	246,050	2,152,419
Total Property	716,255	2,638,626
Less: Accumulated Depreciation and Amortization	(612,844)	(2,445,242)
Property, Net	\$ 103,411	\$ 183,384

Depreciation and amortization expense was \$84,060 and \$138,088 for the years ended September 30, 2016 and 2015, respectively.

(7) Net Assets

Net assets consisted of the following as of September 30:

(a) Unrestricted Net Assets

	2016	2015
Undesignated	\$ 4,028,907	\$ 4,405,249
Board-designated: Read for Success ¹	784,501	1,000,000
Total Unrestricted Net Assets	\$ 4,813,408	\$ 5,405,249

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. During the year ended September 30, 2016, \$215,499 was used to fund this program.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(7) Net Assets (continued)

(b) *Temporarily Restricted Net Assets*

As of September 30, 2016 and 2015, 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:

	<u>2016</u>	<u>2015</u>
Books for Ownership	\$ 2,434,024	\$ 2,072,030
Literacy Services and Other	478,904	218,746
Community Literacy Awareness	187,725	462,189
Unrestricted contributions for use in subsequent years	19,624	100,000
Accumulated earnings on endowment funds not appropriated for expenditure	<u>119,570</u>	<u>89,880</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,239,847</u>	<u>\$ 2,942,845</u>

(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 the Uniform Prudent Management of Institutional Funds Act (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.

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;

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(8) Endowment Funds (continued)

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

- 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, 2016, RIF's endowment had the following activity:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 89,880	\$ 591,610	\$ 681,490
Interest and dividends	-	8,545	-	8,545
Amounts appropriated for expenditure	-	(29,917)	-	(29,917)
Net appreciation	-	51,062	-	51,062
Change in net assets	-	29,690	-	29,690
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 119,570</u>	<u>\$ 591,610</u>	<u>\$ 711,180</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ -</u>	<u>\$ 89,880</u>	<u>\$ 591,610</u>	<u>\$ 681,490</u>

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(8) Endowment Funds (continued)

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

As of September 30, 2016 and 2015, RIF's endowment was entirely donor-restricted and had the following net asset composition:

		2016			
		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Net Assets, End of Year		\$ -	\$ 119,570	\$ 591,610	\$ 711,180
		2015			
		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Net Assets, End of Year		\$ -	\$ 89,880	\$ 591,610	\$ 681,490

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

		2016	2015
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		\$ 64,461	\$ 51,324
With purpose restrictions		55,109	38,556
Total Endowment Funds Classified as Temporarily Restricted Net Assets		\$ 119,570	\$ 89,880

(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, 2016 and 2015, there were no endowment funds with deficiencies.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(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, 2016 and 2015, total pension expense was approximately \$84,000 and \$82,000, 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 \$548,000 and \$547,000 for the years ended September 30, 2016 and 2015, respectively.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(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 due during the year ending September 30, 2017, are \$543,453.

(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, 2016, 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
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
2021	79,409	(77,521)	1,888
Total	\$ 3,701,464	\$ (3,570,054)	\$ 131,410

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

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(10) Lease Commitments (continued)

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

expense and the total straight-line rental income resulted in a net deferred rent asset in the amount of \$428,583 and \$444,376 as of September 30, 2016 and 2015, 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, 2016 and 2015, RIF had approximately \$1,161,000 and \$2,380,000, respectively, composed of demand deposits and certificates of deposit, which exceeded the maximum limit insured by the FDIC by approximately \$911,000 and \$2,130,000, respectively.

(b) *Concentration of Revenue*

RIF's revenue before donated goods and services came one corporate donor which represents 24% and 31% of total revenue and support for the years ended September 30, 2016 and 2015. Approximately 16% of RIF's 2015 revenue before donated public service announcements was received from federal awards which expired in 2015.

(12) Contingencies

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, 2016, 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 will 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, 2016 and 2015, no provision for income taxes was required, as RIF had no net material unrelated business income.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

(13) Income Taxes (continued)

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, 2016 and 2015, 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, 2016, the statute of limitations for tax years ended September 30, 2013, through September 30, 2015, 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, 2016 and 2015, 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 January 26, 2017, 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, 2016

(With Summarized Financial Information for the Year Ended September 30, 2015)

	Program Services				Supporting Services		Total Supporting Services	2016 Total	2015 Total
	Community Literacy Awareness	Books for Ownership	Literacy Services and Other	Total Program Services	Management and General	Fundraising			
Salaries and benefits	\$ 558,175	\$ 181,907	\$ 453,831	\$ 1,193,913	\$ 583,428	\$ 633,075	\$ 1,216,503	\$ 2,410,416	\$ 2,322,140
Books for local programs	143,081	1,516,389	399,612	2,059,082	-	-	-	2,059,082	3,434,612
Donated goods and services	1,606,523	-	-	1,606,523	34,987	-	34,987	1,641,510	38,313
Professional services	213,665	426	105,066	319,157	453,482	464,345	917,827	1,236,984	1,366,252
Rent and other occupancy	127,019	41,395	103,275	271,689	132,766	144,064	276,830	548,519	546,711
Printing and reproduction	20,034	360	28,872	49,266	1,188	205,193	206,381	255,647	294,717
Communication services	9,633	3,077	13,239	25,949	9,850	120,905	130,755	156,704	137,915
Travel	19,553	1,533	52,987	74,073	15,034	12,193	27,227	101,300	92,784
Depreciation and amortization	8,070	2,630	55,772	66,472	8,435	9,153	17,588	84,060	138,088
Computer services	14,456	4,711	11,895	31,062	15,110	16,396	31,506	62,568	90,445
Other services	-	-	-	-	29,963	-	29,963	29,963	27,555
Supplies	2,891	554	1,652	5,097	1,812	5,861	7,673	12,770	13,542
TOTAL EXPENSES	\$ 2,723,100	\$ 1,752,982	\$ 1,226,201	\$ 5,702,283	\$ 1,286,055	\$ 1,611,185	\$ 2,897,240	\$ 8,599,523	\$ 8,503,074