



READING IS FUNDAMENTAL, INC.

Financial Statements and Supplemental Information

For the Years Ended September 30, 2018 and 2017



**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.

We have audited the accompanying financial statements of Reading Is Fundamental, Inc. (RIF), which comprise the statements of financial position as of September 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018, on page 23 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
December 18, 2018

READING IS FUNDAMENTAL, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2018 and 2017

	2018	2017
ASSETS		
Cash	\$ 1,579,571	\$ 1,009,569
Pledges receivable, net	2,018,697	1,932,950
Investments	8,310,170	5,778,110
Prepaid expenses and other assets	330,759	433,063
Property, net	1,151,403	1,191,526
TOTAL ASSETS	\$ 13,390,600	\$ 10,345,218
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 272,259	\$ 769,295
Book awards payable	326,992	284,497
Accrued payroll and benefits	208,654	216,687
Deferred revenue	22,607	-
Deferred rent and lease incentives	828,694	676,164
Deposits	60,657	60,657
TOTAL LIABILITIES	1,719,863	2,007,300
Net Assets		
Unrestricted	7,946,063	4,712,104
Temporarily restricted	3,133,064	3,034,204
Permanently restricted	591,610	591,610
TOTAL NET ASSETS	11,670,737	8,337,918
TOTAL LIABILITIES AND NET ASSETS	\$ 13,390,600	\$ 10,345,218

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

READING IS FUNDAMENTAL, INC.

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 6,292,138	\$ 3,254,919	\$ -	\$ 9,547,057
Donated goods and services	1,431,734	-	-	1,431,734
Investment income	340,600	35,807	-	376,407
Contract revenue	598,399	-	-	598,399
Other revenue	122,690	-	-	122,690
Net assets released from restrictions:				
Satisfaction of program restrictions	3,186,866	(3,186,866)	-	-
Satisfaction of time restrictions	5,000	(5,000)	-	-
	11,977,427	98,860	-	12,076,287
TOTAL REVENUE AND SUPPORT				
EXPENSES				
Program Services:				
Community Literacy Awareness	1,632,039	-	-	1,632,039
Literacy Services and other	2,013,664	-	-	2,013,664
Books for Ownership	1,443,354	-	-	1,443,354
Digital programs	991,267	-	-	991,267
	6,080,324	-	-	6,080,324
Supporting Services:				
Fundraising	1,536,263	-	-	1,536,263
Management and general	1,126,881	-	-	1,126,881
	2,663,144	-	-	2,663,144
TOTAL EXPENSES	8,743,468	-	-	8,743,468
CHANGE IN NET ASSETS	3,233,959	98,860	-	3,332,819
NET ASSETS, BEGINNING OF YEAR	4,712,104	3,034,204	591,610	8,337,918
NET ASSETS, END OF YEAR	\$ 7,946,063	\$ 3,133,064	\$ 591,610	\$ 11,670,737

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

READING IS FUNDAMENTAL, INC.

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 2,424,523	\$ 2,584,750	\$ -	\$ 5,009,273
Donated goods and services	2,231,935	-	-	2,231,935
Investment income	599,558	65,392	-	664,950
Contract revenue	415,708	-	-	415,708
Other revenue	141,017	-	-	141,017
Net assets released from restrictions:				
Satisfaction of program restrictions	2,850,785	(2,850,785)	-	-
Satisfaction of time restrictions	5,000	(5,000)	-	-
	8,668,526	(205,643)	-	8,462,883
TOTAL REVENUE AND SUPPORT				
EXPENSES				
Program Services:				
Community Literacy Awareness	2,856,757	-	-	2,856,757
Books for Ownership	1,891,343	-	-	1,891,343
Literacy Services and other	1,231,904	-	-	1,231,904
Digital programs	331,722	-	-	331,722
	6,311,726	-	-	6,311,726
Total Program Services				
Supporting Services:				
Fundraising	1,287,129	-	-	1,287,129
Management and general	1,170,975	-	-	1,170,975
	2,458,104	-	-	2,458,104
Total Supporting Services				
TOTAL EXPENSES	8,769,830	-	-	8,769,830
CHANGE IN NET ASSETS	(101,304)	(205,643)	-	(306,947)
NET ASSETS, BEGINNING OF YEAR	4,813,408	3,239,847	591,610	8,644,865
NET ASSETS, END OF YEAR	\$ 4,712,104	\$ 3,034,204	\$ 591,610	\$ 8,337,918

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, 2018 and 2017
Increase (Decrease) in Cash

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,332,819	\$ (306,947)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	180,887	82,762
Unrealized losses (gains) on investments	66,633	(298,312)
Realized gains on sales of investments	(340,552)	(263,204)
Loss on disposal of fixed assets	-	27,734
Changes in assets and liabilities:		
Pledges receivable	(85,747)	6,916
Prepaid expenses and other assets	102,304	(234,294)
Accounts payable and accrued expenses	(497,036)	686,137
Book awards payable	42,495	102,647
Accrued payroll and benefits	(8,033)	(4,754)
Deferred revenue	22,607	(40,000)
Deferred rent and lease incentives	152,530	(88,082)
Deposits	-	(3,200)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,968,907	(332,597)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property	(140,764)	(614,746)
Proceeds from maturities and sale of investments	848,939	2,434,763
Purchases of investments	(3,107,080)	(1,220,750)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(2,398,905)	599,267
NET INCREASE IN CASH	570,002	266,670
CASH, BEGINNING OF YEAR	1,009,569	742,899
CASH, END OF YEAR	\$ 1,579,571	\$ 1,009,569
NONCASH FINANCING AND INVESTING ACTIVITIES		
Leasehold improvements	\$ -	\$ 583,865
Deferred lease incentive	-	(583,865)
	-	-

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, 2018 and 2017

(1) Mission, Organization, Programs and Funding

(a) *Mission*

Reading Is Fundamental, Inc. (RIF) is committed to achieving 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 that 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 promotes awareness of the critical impact of early literacy through a broad range of activities, sharing resources through its website and social media platforms, distribution of its multicultural book collections, and leveraging media through public service announcements. Through community engagement, RIF is expanding its reach and influence throughout the entire RIF community.

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. Funded by a variety of corporate and foundation partners and working through local community programs, RIF distributes books to children that are free to the children and their families. Children choose their own books from a wide range of titles appropriate to their reading level. The distributions, which occur throughout the year, also include parent and community engagement and provide an opportunity for the employees of corporate funders to actively participate. Focusing on access and choice, students in communities throughout the country participate in this flagship program of RIF, Books for Ownership, selecting new, age-appropriate books to

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

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

(c) *RIF Program Services (continued)*

Books for Ownership (continued)

take home and own. The program's integrated approach to literacy provides supporting resources to teachers and inspires children to learn through two annual events focused on book distribution and reading. These books are further supported through digital resources on RIF's Literacy Central.

Digital Programs

- RIF's digital portfolio of products includes Literacy Central, Literacy Network and the Literacy App.
 - **Literacy Central** is an online destination for teachers, parents and literacy volunteers to get thousands of free digital resources tied directly to the books children love and teachers turn to every day. The portal provides tools to easily organize and keep reading resources in one place with customizable book lists, printable lesson plans, activities, games, reading passages, calendars and videos.
 - **Literacy Network** is RIF's community portal designed to support RIF programs and volunteers across the country and, most importantly, reach more children with life-changing literacy support. This is the destination for all of the resources and support needed to be an effective local literacy champion – whether an individual who wants to volunteer, one of RIF's community partners, a school that wants to implement a RIF program or one of our local RIF organizations.
 - **The Literacy App** is a free resource that allows users to scan an ISBN bar code of a specific book and launch the Literacy Central webpage dedicated to activities, games and helpful tips specific to the book. Children are motivated to stay engaged with reading through countless adventures that start with just one book. Parents and educators have an easy, trusted tool designed to create a culture of literacy for lasting impact.

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 continues to offer its Read for Success program, an innovative reading intervention addressing the literacy backslide that traditionally happens during the summer months. 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 STEAM-themed classroom activities, professional development for teachers, and parent engagement resources. Tested over two years in among 33,000 students from 16 states, RIF's Read for Success helped reverse the trend of summer learning loss for more than half the participating students. In addition, 57% of the students saw gains in reading proficiency when tested from spring to fall.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

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

(c) *RIF Program Services (continued)*

Literacy Services and Other Programs (continued)

RIF conducts literacy training for early childhood educators. This training is designed to support children's emerging language and literacy skills while 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.

RIF hosts other literacy events which 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.

(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.

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(2) **Summary of Significant Accounting Policies (continued)**

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

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, 2018 and 2017, 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.

(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 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 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 and 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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies (continued)

(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 satisfied, and temporarily restricted 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.

(g) **Donated Goods and Services**

Donated goods and services represent the value of donated advertising – public service announcements (PSAs), media, donated books and legal assistance. Donations are recorded based on their fair value at the date of donation and are included in the Community Literacy Awareness Program, Books for Ownership Program, and management and general expenses in the accompanying statements 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:

	<u>2018</u>	<u>2017</u>
Equity mutual funds	\$ 5,147,725	\$ 3,384,666
Corporate and government bond mutual funds	2,887,956	1,759,684
Certificates of deposit	200,000	500,000
Money market funds	<u>74,489</u>	<u>133,760</u>
Total Investments	<u>\$ 8,310,170</u>	<u>\$ 5,778,110</u>

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(3) Investments (continued)

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

	2018	2017
Interest from cash	\$ 3,348	\$ 7,133
Interest and dividend income from investments	99,140	96,301
Realized gains	340,552	263,204
Unrealized gains (losses)	(66,633)	298,312
Investment management fees	(26,482)	(25,098)
Investment Income, Net	\$ 349,925	\$ 639,852

Investment management fees for the years ended September 30, 2018 and 2017 are included in the other services line item in the supplemental schedule of functional expenses.

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2018, 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	\$ 5,147,725	\$ 5,147,725	\$ -	\$ -
Corporate and government bond mutual funds	2,887,956	2,887,956	-	-
Certificates of deposit	200,000	-	200,000	-
Money market funds	74,489	74,489	-	-
Total Investments	\$ 8,310,170	\$ 8,110,170	\$ 200,000	\$ -

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(3) Investments (continued)

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2017, aggregated by the fair value hierarchy level within which those measurements were made:

	<u>Total</u> <u>Fair Value</u>	<u>Quoted Prices</u> <u>in Active</u> <u>Markets for</u> <u>Identical</u> <u>Assets/</u> <u>Liabilities</u> <u>(Level 1)</u>	<u>Significant</u> <u>Other</u> <u>Observable</u> <u>Inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs</u> <u>(Level 3)</u>
Equity mutual funds	\$ 3,384,666	\$ 3,384,666	\$ -	\$ -
Corporate and government bond mutual funds	1,759,684	1,759,684	-	-
Certificates of deposit	500,000	-	500,000	-
Money market funds	<u>133,760</u>	<u>133,760</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 5,778,110</u>	<u>\$ 5,278,110</u>	<u>\$ 500,000</u>	<u>\$ -</u>

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 – These are 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, 2018 and 2017, the amounts were scheduled to be paid as follows:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 2,013,866	\$ 1,895,562
One to five years	<u>5,000</u>	<u>37,995</u>
Total Pledge Receivable	2,018,866	1,933,557
Less: Discount on Multiyear Pledges	<u>(169)</u>	<u>(607)</u>
Pledges Receivable, Net	<u>\$ 2,018,697</u>	<u>\$ 1,932,950</u>

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(4) Pledges Receivable (continued)

As of September 30, 2018 and 2017, pledges receivable were deemed fully collectible. Receivables due in one to five years as of September 30, 2018 and 2017, are shown at the present value of estimated future cash flows using a discount rate of 4.49% and 3.27%, respectively, 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 years ended September 30, 2018 and 2017, RIF recognized approximately \$1,374,000 and \$2,179,000, respectively, in revenue related to contributions of PSAs, media 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 donated goods and services revenue and support and program services expenses in the accompanying statements of activities.

Additionally, RIF recognized approximately \$58,000 and \$53,000 of donated legal and consulting services for the years ended September 30, 2018 and 2017, respectively. These amounts are included in unrestricted donated goods and services revenue and management and general expenses in the accompanying statements of activities.

(6) Property

Property consisted of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 289,394	\$ 274,249
Computer software and website design	484,211	391,355
Leasehold improvements	<u>586,714</u>	<u>553,951</u>
Total Property	1,360,319	1,219,555
Less: Accumulated Depreciation and Amortization	<u>(208,916)</u>	<u>(28,029)</u>
Property, Net	<u>\$ 1,151,403</u>	<u>\$ 1,191,526</u>

Depreciation and amortization expense was \$180,887 and \$82,762 for the years ended September 30, 2018 and 2017, respectively.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(7) Net Assets

Net assets consisted of the following as of September 30:

(a) Unrestricted Net Assets

	2018	2017
Undesignated	\$ 7,851,456	\$ 4,275,786
Board-designated:		
Read for Success ¹	94,607	436,318
Total Unrestricted Net Assets	\$ 7,946,063	\$ 4,712,104

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 years ended September 30, 2018 and 2017, \$341,711 and \$348,183, respectively, was used to fund this program.

(b) Temporarily Restricted Net Assets

As of September 30, 2018, and 2017, 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 was as follows as of September 30:

	2018	2017
Community Literacy Awareness	\$ 1,440,000	\$ 676,841
Books for Ownership	1,128,693	1,071,850
Digital programs	214,972	694,859
Literacy Services and other	191,609	427,252
Unrestricted contributions for use in subsequent years	10,000	14,685
Accumulated earnings on endowment funds not appropriated for expenditure	147,790	148,717
Total Temporarily Restricted Net Assets	\$ 3,133,064	\$ 3,034,204

(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

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(8) Endowment Funds (continued)

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

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;
- 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.

During the year ended September 30, 2018, 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	\$ -	\$ 148,717	\$ 591,610	\$ 740,327
Interest and dividends	-	9,416	-	9,416
Amounts appropriated for expenditure	-	(36,734)	-	(36,734)
Net appreciation	-	26,391	-	26,391
Change in net assets	-	(927)	-	(927)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 147,790</u>	<u>\$ 591,610</u>	<u>\$ 739,400</u>

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(8) Endowment Funds (continued)

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

During the year ended September 30, 2017, 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	\$ -	\$ 119,570	\$ 591,610	\$ 711,180
Interest and dividends	-	9,573	-	9,573
Amounts appropriated for expenditure	-	(36,245)	-	(36,245)
Net appreciation	-	55,819	-	55,819
Change in net assets	-	29,147	-	29,147
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 148,717</u>	<u>\$ 591,610</u>	<u>\$ 740,327</u>

As of September 30, 2018 and 2017, RIF's endowment was entirely donor-restricted and had the following net asset composition:

2018				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 147,790</u>	<u>\$ 591,610</u>	<u>\$ 739,400</u>
2017				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 148,717</u>	<u>\$ 591,610</u>	<u>\$ 740,327</u>

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(8) Endowment Funds (continued)

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

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

	2018	2017
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	\$ 81,265	\$ 82,364
With purpose restrictions	66,525	66,353
Total Endowment Funds Classified as Temporarily Restricted Net Assets	\$ 147,790	\$ 148,717

(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, 2018, and 2017, there were no endowment funds with deficiencies.

(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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(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, 2018 and 2017, total pension expense was approximately \$67,000 and \$61,000, respectively.

(10) Allocation of Joint Costs

Beginning in 2018, RIF has conducted direct mail campaigns that include appeals for contributions as well as program components. These joint costs include vendor fees, postage and printing and were allocated in the accompanying financial statements as follows:

	<u>2018</u>	<u>2017</u>
Program	\$ 93,800	\$ -
Fundraising	<u>80,979</u>	<u>-</u>
Total Allocation of Joint Costs	<u>\$ 174,779</u>	<u>\$ -</u>

(11) 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 \$308,000 and \$589,000 for the years ended September 30, 2018 and 2017, respectively.

(a) *Operating Sublease for Office Space on Rhode Island Avenue, NW*

In August 2012, RIF entered into a noncancelable operating sublease with the Organization for office space located on Rhode Island Avenue, NW, Washington, D.C. The sublease expired in September 2017.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(11) Lease Commitments (continued)

(b) *Operating Lease for New Office Space on First Street, NE*

In September 2017, RIF entered into a lease for new office space located on First Street, NE, Washington, D.C., under a noncancelable operating lease that expires in September 2028. The office lease includes incentives such as leasehold improvements up to \$584,000 and five months of abated rent payments, as well as yearly rental increases. All of the leasehold improvement allowance was utilized as of September 30, 2017. Under GAAP, all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. The difference between the GAAP rent expense and the monthly cash payment is recognized as deferred rent and lease incentives in the accompanying statements of financial position. The lease required a security deposit in the amount of \$80,000, which is included in prepaid expenses and other assets in the accompanying statements of financial position.

As of September 30, 2018, future minimum rental obligations under the operating lease were as follows:

<u>For the Year ending September 30,</u>	
2019	\$ 221,320
2020	339,895
2021	348,367
2022	357,107
2023	366,055
Thereafter	<u>1,972,067</u>
Total	<u>\$ 3,604,811</u>

(c) *Exit of Original Leased Office Space – 23rd Street, NW*

In May 2010, RIF entered into a lease for office space located on 23rd Street, NW, Washington, D.C., 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, NE, Washington, D.C. 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 required the subtenant to pay a security deposit in the amount of \$60,657, which is included in the deposits liability in the accompanying statements of financial position, and to execute a letter of credit in the amount of \$500,000 in favor of RIF. The amount of the required letter of credit was reduced to \$200,000 effective October 1, 2017.

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

(11) Lease Commitments (continued)

(c) Exit of Original Leased Office Space – 23rd Street, NW (continued)

As of September 30, 2018, future minimum rental payments owed by RIF under the lease, net of sublease income, were as follows:

For the Years Ending September 30,	Lease Payments	Sublease Income	Net
2019	\$ 916,429	\$ (894,055)	\$ 22,374
2020	939,348	(916,424)	22,924
2021	79,409	(77,521)	1,888
Total	\$ 1,935,186	\$ (1,888,000)	\$ 47,186

(12) 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, 2018 and 2017, RIF had approximately \$1,635,000 and \$1,438,000, respectively, composed of demand deposits and certificates of deposit, which exceeded the maximum limit insured by the FDIC by approximately \$1,385,000 and \$1,188,000, respectively.

(b) Concentration of Revenue

RIF's revenue before donated goods and services came from one corporate donor, which revenue represents 18% and 27%, respectively, of total revenue and support for the years ended September 30, 2018 and 2017.

(13) Contingencies

Letters of Credit

As of September 30, 2018, RIF had standby letters of credit in the amount of \$268,000 in connection with its lease for office space at 23rd Street, NW. RIF has a money market fund returning .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.

(14) 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, 2018 and 2017, 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, 2018 and 2017

(14) 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 evaluated its uncertainty in income taxes for the years ended September 30, 2018 and 2017, 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, 2018, the statute of limitations for tax years ended September 30, 2015, through September 30, 2017, remained 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 uncertainty in income taxes, if any, in income tax expense. As of September 30, 2018 and 2017, RIF had no accruals for interest and/or penalties.

(15) Subsequent Events

In preparing these financial statements, RIF has evaluated, for potential recognition or disclosure, events and transactions through December 18, 2018, the date the financial statements were available to be issued. There were no subsequent events identified that require recognition or disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

READING IS FUNDAMENTAL, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	2018 Total	2017 Total
	Community Literacy Awareness	Literacy Services and Other	Books for Ownership	Digital Programs		Management and General	Fundraising			
Salaries and benefits	\$ 185,533	\$ 864,857	\$ 171,387	\$ 481,930	\$ 1,703,707	\$ 408,151	\$ 529,770	\$ 937,921	\$ 2,641,628	\$ 2,300,083
Books for local programs	566	470,444	853,050	79,251	1,403,311	-	-	-	1,403,311	1,537,110
Donated goods and services	932,267	-	317,955	-	1,250,222	58,173	-	58,173	1,308,395	2,231,935
Professional services	194,968	108,493	5,467	140,772	449,700	98,033	403,381	501,414	951,114	234,281
Consulting fees	111,510	104,222	2,730	93,626	312,088	167,156	6,895	174,051	486,139	478,352
Printing and reproduction	78,975	130,594	5,226	56,688	271,483	4,612	197,514	202,126	473,609	358,139
Rent and other occupancy	21,646	100,902	19,996	56,227	198,771	47,619	61,808	109,427	308,198	588,696
Accounting	-	-	-	-	-	218,949	-	218,949	218,949	221,299
Depreciation and amortization	12,704	59,221	11,736	33,000	116,661	27,950	36,276	64,226	180,887	82,762
Professional fundraising	-	-	-	-	-	-	171,733	171,733	171,733	190,156
Postage and delivery	2,466	38,892	3,983	1,233	46,574	5,683	84,955	90,638	137,212	116,940
Dues and subscriptions	27,531	31,605	546	14,390	74,072	13,942	5,596	19,538	93,610	77,369
Travel	22,766	50,590	1,021	5,678	80,055	4,295	6,501	10,796	90,851	86,838
Computer services	6,020	28,061	5,561	15,637	55,279	13,243	17,189	30,432	85,711	83,718
Other services	-	-	39,982	-	39,982	28,023	-	28,023	68,005	63,986
Conferences and related costs	29,967	2,386	53	74	32,480	14,348	650	14,998	47,478	32,557
Communication services	2,205	9,808	1,968	5,188	19,169	10,291	5,671	15,962	35,131	40,007
Supplies	1,532	7,143	1,416	3,981	14,072	3,371	4,376	7,747	21,819	25,019
Insurance	1,383	6,446	1,277	3,592	12,698	3,042	3,948	6,990	19,688	20,583
TOTAL EXPENSES	\$ 1,632,039	\$ 2,013,664	\$ 1,443,354	\$ 991,267	\$ 6,080,324	\$ 1,126,881	\$ 1,536,263	\$ 2,663,144	\$ 8,743,468	\$ 8,769,830