



READING IS FUNDAMENTAL, INC.

Financial Statements

For the Years Ended September 30, 2019 and 2018



**and
Report Thereon**



READING IS FUNDAMENTAL, INC.

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INDEPENDENT AUDITORS' 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 statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' 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.

Continued

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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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

RIF's 2018 financial statements were audited by Raffa, P.C., whose practice was combined with Marcum LLP, and whose report dated December 18, 2018, expressed an unmodified opinion on those statements.

Marcum LLP

Washington, DC
February 3, 2020

READING IS FUNDAMENTAL, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2019 and 2018

	2019	2018
ASSETS		
Cash	\$ 2,319,505	\$ 1,579,571
Pledges receivable, net	2,948,354	2,018,697
Investments	9,541,931	8,310,170
Prepaid expenses and other assets	596,139	330,759
Property, net	1,430,073	1,151,403
TOTAL ASSETS	\$ 16,836,002	\$ 13,390,600
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 156,667	\$ 272,259
Book awards payable	1,051,613	326,992
Accrued payroll and benefits	251,876	208,654
Deferred revenue	174,311	22,607
Deferred rent and lease incentives	867,308	828,694
Deposits	60,657	60,657
TOTAL LIABILITIES	2,562,432	1,719,863
Net Assets		
Without donor restrictions	7,461,656	7,946,063
With donor restrictions	6,811,914	3,724,674
TOTAL NET ASSETS	14,273,570	11,670,737
TOTAL LIABILITIES AND NET ASSETS	\$ 16,836,002	\$ 13,390,600

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

READING IS FUNDAMENTAL, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 2,441,682	\$ 6,641,422	\$ 9,083,104
Donated goods and services	6,069,921	-	6,069,921
Investment income, net	179,632	41,486	221,118
Contract revenue	1,323,914	-	1,323,914
Other revenue	91,289	-	91,289
Net assets released from restrictions:			
Satisfaction of program restrictions	3,595,668	(3,595,668)	-
TOTAL REVENUE AND SUPPORT	13,702,106	3,087,240	16,789,346
EXPENSES			
Program Services:			
Community literacy awareness	6,877,106	-	6,877,106
Print programs	2,697,839	-	2,697,839
Digital programs	1,794,792	-	1,794,792
Total Program Services	11,369,737	-	11,369,737
Supporting Services:			
Fundraising	1,643,735	-	1,643,735
Management and general	1,173,041	-	1,173,041
Total Supporting Services	2,816,776	-	2,816,776
TOTAL EXPENSES	14,186,513	-	14,186,513
CHANGE IN NET ASSETS	(484,407)	3,087,240	2,602,833
NET ASSETS, BEGINNING OF YEAR	7,946,063	3,724,674	11,670,737
NET ASSETS, END OF YEAR	\$ 7,461,656	\$ 6,811,914	\$ 14,273,570

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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, net	314,118	35,807	349,925
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)	-
	<u>11,950,945</u>	<u>98,860</u>	<u>12,049,805</u>
TOTAL REVENUE AND SUPPORT			
EXPENSES			
Program Services:			
Community literacy awareness	2,873,974	-	2,873,974
Print Programs	2,214,154	-	2,214,154
Digital Programs	992,196	-	992,196
	<u>6,080,324</u>	<u>-</u>	<u>6,080,324</u>
Total Program Services			
Supporting Services:			
Fundraising	1,536,263	-	1,536,263
Management and general	1,100,399	-	1,100,399
	<u>2,636,662</u>	<u>-</u>	<u>2,636,662</u>
Total Supporting Services			
TOTAL EXPENSES	<u>8,716,986</u>	<u>-</u>	<u>8,716,986</u>
CHANGE IN NET ASSETS	3,233,959	98,860	3,332,819
NET ASSETS, BEGINNING OF YEAR	<u>4,712,104</u>	<u>3,625,814</u>	<u>8,337,918</u>
NET ASSETS, END OF YEAR	<u>\$ 7,946,063</u>	<u>\$ 3,724,674</u>	<u>\$ 11,670,737</u>

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

READING IS FUNDAMENTAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2019

(With Summarized Financial Information for the Year Ended September 30, 2018)

	Program Services			Supporting Services			2019 Total	2018 Total	
	Community Literacy Awareness	Print Programs	Digital Programs	Total Program Services	Management and General	Fundraising			Total Supporting Services
Donated goods and services	\$ 5,273,086	\$ 159,972	\$ -	\$ 5,433,058	\$ 36,348	\$ -	\$ 36,348	\$ 5,469,406	\$ 1,308,395
Salaries and benefits	766,502	392,566	727,078	1,886,146	469,538	463,913	933,451	2,819,597	2,641,628
Books and program materials	79,408	1,892,219	25,156	1,996,783	-	-	-	1,996,783	1,403,311
Professional services	152,189	49,763	267,258	469,210	72,621	209,310	281,931	751,141	649,687
Printing and reproduction	200,333	80,530	36,754	317,617	2,334	244,817	247,151	564,768	473,609
Consulting fees	101,692	16,713	105,896	224,301	178,963	45,053	224,016	448,317	486,139
Advertising	-	700	21,198	21,898	20,388	317,468	337,856	359,754	243,254
Depreciation and amortization	30,051	15,391	259,187	304,629	18,408	18,188	36,596	341,225	180,887
Rent and other occupancy	83,356	42,691	79,069	205,116	51,062	50,450	101,512	306,628	308,198
Accounting	-	-	-	-	223,378	-	223,378	223,378	218,949
Professional fundraising	-	-	-	-	-	202,000	202,000	202,000	171,733
Computer services	20,210	10,337	110,084	140,631	13,045	12,215	25,260	165,891	85,711
Postage and delivery	62,999	12,889	979	76,867	4,772	46,553	51,325	128,192	137,212
Legal Fees	10,231	835	94,139	105,205	18,886	-	18,886	124,091	58,173
Travel	53,000	12,184	32,650	97,834	6,241	9,757	15,998	113,832	90,851
Dues and subscriptions	23,069	1,125	16,353	40,547	15,910	8,560	24,470	65,017	93,610
Communication services	10,004	4,774	8,869	23,647	9,893	5,732	15,625	39,272	35,131
Conferences and related costs	2,800	1,048	68	3,916	16,560	-	16,560	20,476	47,478
Insurance	5,493	2,813	5,211	13,517	3,365	3,325	6,690	20,207	19,688
Supplies	2,683	1,289	4,843	8,815	3,757	1,369	5,126	13,941	21,819
Other services	-	-	-	-	7,572	5,025	12,597	12,597	41,523
TOTAL EXPENSES	\$ 6,877,106	\$ 2,697,839	\$ 1,794,792	\$ 11,369,737	\$ 1,173,041	\$ 1,643,735	\$ 2,816,776	\$ 14,186,513	\$ 8,716,986

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,602,833	\$ 3,332,819
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	341,225	180,887
Unrealized losses on investments	161,234	66,633
Realized gains on sales of investments	(238,774)	(340,552)
Donated property-online subscription platform	(602,275)	-
Loss on disposal of property	403	-
Changes in assets and liabilities:		
Pledges receivable	(929,657)	(85,747)
Prepaid expenses and other assets	(265,380)	102,304
Accounts payable and accrued expenses	(115,592)	(497,036)
Book awards payable	724,621	42,495
Accrued payroll and benefits	43,222	(8,033)
Deferred revenue	151,704	22,607
Deferred rent and lease incentives	38,614	152,530
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,912,178	2,968,907
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property	(18,023)	(140,764)
Proceeds from maturities and sale of investments	1,923,569	848,939
Purchases of investments	(3,077,790)	(3,107,080)
NET CASH USED IN INVESTING ACTIVITIES	(1,172,244)	(2,398,905)
NET INCREASE IN CASH	739,934	570,002
CASH, BEGINNING OF YEAR	1,579,571	1,009,569
CASH, END OF YEAR	\$ 2,319,505	\$ 1,579,571
NONCASH FINANCING AND INVESTING ACTIVITIES		
Property-donated online subscription platform	\$ 602,275	\$ -
Donated goods and services-donated online subscription platform	(602,275)	-
	\$ -	\$ -

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, 2019 and 2018

(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 all 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 that address key literacy issues and supports the implementation of these programs to ensure that 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 3,000 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's Program Services*

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 creates content and programs, in both print and digital formats, that address key literacy issues and supports the implementation of these programs in sites across the country. Through community literacy awareness and engagement activities, RIF is expanding its reach and influence throughout the entire RIF community.

Print Programs

Books for Ownership is RIF's flagship reading program where children choose new books and participate in reading activities with teachers, parents, volunteers and community members at reading celebrations held across the country. 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 a Books

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2019 and 2018

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

(c) *RIF's Program Services (continued)*

Print Programs (continued)

for Ownership program selecting new, age-appropriate books to take home and own. The program's integrated approach to literacy provides supporting resources to teachers and inspires children to learn through events focused on book distribution and reading. These books are further supported through digital resources on RIF's Literacy Central.

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 among 33,000 students from 16 states, RIF's Read for Success program 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.

Digital Programs

- RIF's digital portfolio of products includes Literacy Central, Literacy Network, the Literacy App, and Skybrary.
 - **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.
 - **Skybrary** is a subscription-based interactive, digital library of more than 900 high-quality Ebooks and video exploration field trips that engage readers and help foster a lifelong love of learning. This online resource allows children to explore other thematic activities that support the book. Skybrary School features a carefully

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

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

(c) RIF's Program Services (continued)

Digital Programs (continued)

curated library of digital books along with added features just for educators. Teachers can access lesson plans and teaching guides inspired by the books and videos in the library for extended learning as well as track and manage students' usage of the books and videos.

Community Literacy Awareness and Other Programs

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

RIF conducts literacy training for early childhood educators. This training is designed to support children's emerging language and literacy skills 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 net assets without donor restriction unless their use is restricted by the donors.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies (continued)

(b) *Fair Value of Financial Instruments*

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value 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, 2019 and 2018, 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 three to 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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies (continued)

(d) *Classification of Net Assets*

RIF's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of RIF at the discretion of RIF's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has designated approximately \$3.5 million of net assets without donor restrictions to serve as a working capital reserve to secure RIF's long-term financial viability.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of RIF or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

(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.

RIF licenses subscriptions to the Skybrary app to both consumers and classrooms on either a monthly, semi-annual, or annual basis. Revenue from monthly subscriptions is recognized in the month the subscription begins while revenue from semi-annual and annual subscriptions is recognized ratably over the term of the subscription. Funds received under these subscriptions 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 net assets with donor restrictions. Donor restrictions are considered satisfied, and net assets with donor restrictions are reclassified to net assets without donor restrictions, 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.

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies (continued)

(g) *Donated Goods and Services*

Donated goods and services represent the value of donated advertising, media, software, 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, print programs, and management and general expenses in the accompanying statements of activities and functional expenses.

(h) *Grant Expense – Book Awards*

Grant funds received that are restricted for book awards to be distributed to local programs and partners are expensed in the year in which the book award is made to the local program and partner organizations. Grant funds transferred to partner organizations for book awards that are not used by partner organizations in the year awarded are recorded as book awards payable in the accompanying statements of financial position. The remainder of grant funds that are restricted for other purposes are not included as expenses until such time as the conditions are substantially met. As of September 30, 2019, book awards payable are scheduled to be paid within one year.

(i) *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.

(j) *Functional Allocation of Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area of RIF are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Salary expenses are allocated based on time and effort tracked by time sheets. Employee benefits, occupancy expenses, depreciation expense, computer services, and certain other shared costs are allocated proportionately among the programs and supporting services in proportion to salaries incurred for each program. Costs that are part of the direct mail campaigns that qualify under accounting standards as joint costs are allocated based on the line counts of the direct mail pieces.

(k) *New Accounting Pronouncement*

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. RIF has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(3) Investments

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

	2019	2018
Equity mutual funds	\$ 5,653,563	\$ 5,147,725
Corporate and government bond mutual funds	3,598,370	2,887,956
Certificates of deposit	200,000	200,000
Money market funds	89,998	74,489
Total Investments	\$ 9,541,931	\$ 8,310,170

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

	2019	2018
Interest from cash	\$ 4,670	\$ 3,348
Interest and dividend income from investments	173,414	99,140
Realized gains	238,774	340,552
Unrealized losses	(161,234)	(66,633)
Investment management fees	(34,506)	(26,482)
Investment Income, Net	\$ 221,118	\$ 349,925

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2019, 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	\$ 5,653,563	\$ 5,653,563	\$ -	\$ -
Corporate and government bond mutual funds	3,598,370	3,598,370	-	-
Certificates of deposit	200,000	-	200,000	-
Money market funds	89,998	89,998	-	-
Total Investments	\$ 9,541,931	\$ 9,341,931	\$ 200,000	\$ -

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(3) Investments (continued)

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:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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	<u>74,489</u>	<u>74,489</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 8,310,170</u>	<u>\$ 8,110,170</u>	<u>\$ 200,000</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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(4) Pledges Receivable

Pledges receivable consist of amounts due from foundations, trusts, corporations and individuals. As of September 30, 2019 and 2018, the amounts were scheduled to be paid as follows:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 2,953,354	\$ 2,013,866
One to five years	<u>-</u>	<u>5,000</u>
Total Pledge Receivable	2,953,354	2,018,866
Less: Allowance for doubtful accounts	(5,000)	-
Less: Discount on Multiyear Pledges	<u>-</u>	<u>(169)</u>
Pledges Receivable, Net	<u>\$ 2,948,354</u>	<u>\$ 2,018,697</u>

(5) Donated Goods and Services

For the years ended September 30, 2019 and 2018, RIF recognized approximately \$5,273,000 and \$932,000 respectively, in revenue related to contributions of media and advertising, and approximately \$158,000 and \$441,000 respectively in revenue related to donated books to support literacy programs. The reported fair value of the donated media and advertising is based on prices provided by the donors while donated books are reported at their fair value to RIF for use in fulfilling its mission. The total fair value of donated media and books is included in donated goods and services revenue and program services expenses in the accompanying statements of activities.

During the year ended September 30, 2019, RIF recognized approximately \$602,000 of donated software related to the donation of the Skybrary asset from RRRKidz. The asset is being amortized over three years. This amount is included in donated goods and services revenue and the related amortization is included in digital program expenses in the accompanying statement of activities.

Additionally, RIF recognized approximately \$36,000 and \$58,000 of donated legal and consulting services for the years ended September 30, 2019 and 2018, respectively. These amounts are included in donated goods and services revenue and management and general expenses in the accompanying statements of activities.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(6) Property

Property consisted of the following as of September 30:

	2019	2018
Furniture and equipment	\$ 306,075	\$ 289,394
Computer software and website design	1,086,486	484,211
Leasehold improvements	586,714	586,714
Total Property	1,979,275	1,360,319
Less: Accumulated Depreciation and Amortization	(549,202)	(208,916)
Property, Net	\$ 1,430,073	\$ 1,151,403

Total depreciation and amortization expense was \$341,225 and \$180,887 for the years ended September 30, 2019 and 2018, respectively.

(7) Net Assets

(a) Net Assets Without Donor Restrictions

As of September 30, 2019 and 2018, RIF's net assets without donor restrictions were as follows:

	2019	2018
Undesignated – operating	\$ 3,956,700	\$ 7,851,456
Board-designated:		
Read for Success ¹	-	94,607
Endowment- Working Capital Reserve fund ²	3,504,956	-
Total Net Assets Without Donor Restrictions	\$ 7,461,656	\$ 7,946,063

¹ In September 2015, the Board of Directors designated \$1 million of net assets without donor restrictions 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, 2019 and 2018, \$94,607 and \$341,711, respectively, was used to fund this program.

² Represents a quasi-endowment fund established by the Board of Directors as a working capital reserve to provide funding for various strategic initiatives of RIF, the earnings from which are for use in general operations of RIF.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(7) Net Assets (continued)

(b) Net Assets With Donor Restrictions

As of September 30, 2019 and 2018, net assets with donor restrictions were restricted for the following purposes or period:

	2019	2018
Subject to expenditure for specified purpose:		
Community Literacy Awareness	\$ 1,846,249	\$ 1,631,609
Print Programs	1,869,477	1,128,693
Digital Programs	80,968	214,972
Accumulated earnings on endowment funds not appropriated for expenditure	151,589	147,790
Total Subject to Expenditure for Specified Purpose	3,948,283	3,123,064
Subject to occurrence of specified events/passage of time:		
General operations	50,000	10,000
Subject to Perpetuity:		
Endowment funds	2,813,631	591,610
Total Net Assets With Donor Restrictions	\$ 6,811,914	\$ 3,724,674

(8) Endowment Funds

RIF's endowment includes both board-designated and 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 classified as donor restricted net assets in perpetuity is classified as donor 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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(8) Endowment Funds (continued)

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

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

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

During the year ended September 30, 2019, RIF's endowment had the following activity:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 739,400	\$ 739,400
Contributions	-	2,222,021	2,222,021
Transfers from operations	3,504,956	-	3,504,956
Investment income, net	39,289	41,486	80,775
Amounts appropriated for expenditure	<u>(39,289)</u>	<u>(37,687)</u>	<u>(76,976)</u>
Change in net assets	<u>3,504,956</u>	<u>2,225,820</u>	<u>5,730,776</u>
Endowment Net Assets, End of Year	<u>\$ 3,504,956</u>	<u>\$ 2,965,220</u>	<u>\$ 6,470,176</u>

Continued

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(8) Endowment Funds (continued)

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

During the year ended September 30, 2018, RIF's endowment had the following activity:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 740,327	\$ 740,327
Investment income, net	-	35,807	35,807
Amounts appropriated for expenditure	-	(36,734)	(36,734)
Change in net assets	-	(927)	(927)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 739,400</u>	<u>\$ 739,400</u>

As of September 30, 2019 and 2018, RIF's endowment funds had the following net asset composition:

	2019		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted funds:			
Gift value	\$ -	\$ 2,813,631	\$ 2,813,631
Appreciation	-	151,589	151,589
Total Donor-Restricted Funds	-	2,965,220	2,965,220
Board-designated funds	<u>3,504,956</u>	<u>-</u>	<u>3,504,956</u>
Endowment Net Assets, End of Year	<u>\$ 3,504,956</u>	<u>\$ 2,965,220</u>	<u>\$ 6,470,176</u>
	2018		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted funds:			
Gift value	\$ -	\$ 591,610	\$ 591,610
Appreciation	-	147,790	147,790
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 739,400</u>	<u>\$ 739,400</u>

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(8) Endowment Funds (continued)

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

The endowment net assets with donor restrictions consisted of the following as of September 30:

	2019	2018
The portion of endowment funds that is required to be held in perpetuity, either by explicit donor stipulation or by UPMIFA:		
Martha Goldsmith Endowment	\$ 2,222,021	\$ -
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 to be held In Perpetuity	\$ 2,813,631	\$ 591,610
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	\$ 82,395	\$ 81,265
With purpose restrictions	69,194	66,525
Total Endowment Funds Classified as Net Assets With Donor Restrictions	\$ 151,589	\$ 147,790

(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. RIF's interpretation and the policy under UPMIFA is that it has the ability and will continue to spend from underwater funds. As of September 30, 2019, and 2018, 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, 2019 and 2018

(9) Pension Plan

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, 2019 and 2018, total pension expense was approximately \$85,000 and \$67,000, respectively.

(10) Allocation of Joint Costs

RIF conducts 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>2019</u>	<u>2018</u>
Program	\$ 231,031	\$ 93,800
Fundraising	<u>179,156</u>	<u>80,979</u>
Total Allocation of Joint Costs	<u>\$ 410,187</u>	<u>\$ 174,779</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 \$306,000 and \$308,000 for the years ended September 30, 2019 and 2018, respectively.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(11) Lease Commitments (continued)

(a) *Operating Lease for 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, 2019, future minimum rental obligations under the operating lease were as follows:

<u>For the Year ending September 30,</u>	
2020	\$ 339,895
2021	348,367
2022	357,107
2023	366,055
2024	375,208
Thereafter	<u>1,596,859</u>
Total	<u>\$ 3,383,491</u>

(b) *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, NW, 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, 2019 and 2018

(11) Lease Commitments (continued)

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

As of September 30, 2019, 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
2020	\$ 939,348	\$ (916,424)	\$ 22,924
2021	79,409	(77,521)	1,888
Total	\$ 1,018,757	\$ (993,945)	\$ 24,812

(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, 2019 and 2018, RIF had approximately \$2,431,000 and \$1,635,000, respectively, comprised of demand deposits and certificates of deposit, which exceeded the maximum limit insured by the FDIC by approximately \$2,181,000 and \$1,385,000, respectively.

(b) Concentration of Revenue

RIF's revenue before donated goods and services that came from one corporate donor represented 22% and 18%, respectively, of total revenue and support for the years ended September 30, 2019 and 2018.

(13) Contingencies

Letters of Credit

As of September 30, 2019 and 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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

(14) Liquidity and Availability of Financial Assets

RIF regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. RIF's financial assets available within one year of the statement of financial position date for general expenditures at September 30, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 2,319,505	\$ 1,579,571
Pledges receivable, net	2,948,354	2,018,697
Other receivables	83,836	3,262
Investments	<u>9,541,931</u>	<u>8,310,170</u>
Total Financial Assets Available at September 30	<u>14,893,626</u>	<u>11,911,700</u>
Less:		
Amounts unavailable for general expenditures within one year due to donors' restrictions	(6,811,914)	(3,724,674)
Amounts unavailable to management without Board approval	<u>(3,504,956)</u>	<u>(94,607)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 4,576,756</u>	<u>\$ 8,092,419</u>

RIF has various sources of liquidity at its disposal, including cash and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of RIF throughout the year. This is done through monitoring and reviewing RIF's cash flow needs on a regular basis. As a result, management is aware of the cyclical nature of RIF's cash flow related to RIF's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds and equity securities, to support organizational initiatives. RIF has Board-Designated net assets that could be available for current operations with Board approval, if necessary.

(15) 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, 2019 and 2018, 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, 2019 and 2018

(15) 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, 2019 and 2018, 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, 2019, the statute of limitations 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 or interest expense. As of September 30, 2019 and 2018, RIF had no accruals for interest and/or penalties.

(16) Reclassifications

Certain 2018 amounts have been reclassified to confirm to the 2019 financial statement presentation.

(17) Subsequent Events

In preparing these financial statements, RIF has evaluated, for potential recognition or disclosure, events and transactions through February 3, 2020, 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.