



READING IS FUNDAMENTAL, INC.

Financial Statements

For the Years Ended September 30, 2023 and 2022



**and
Report Thereon**



READING IS FUNDAMENTAL, INC.

TABLE OF CONTENTS
For the Years Ended September 30, 2023 and 2022

	<i>Page</i>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-29



INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Reading Is Fundamental, Inc. (RIF), which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of RIF as of September 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of RIF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about RIF's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance

but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 RIF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RIF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Marcum LLP

Washington, DC
February 5, 2024

READING IS FUNDAMENTAL, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2023 and 2022

	2023	2022
ASSETS		
Cash	\$ 8,699,583	\$ 9,980,074
Pledges and other receivables, net	2,984,862	2,869,868
Federal grant receivable	-	6,429
Investments	8,936,203	7,973,317
Prepaid expenses and other assets	1,075,652	907,881
Operating right-of-use asset	1,486,755	-
Property, net	459,760	635,031
TOTAL ASSETS	\$ 23,642,815	\$ 22,372,600
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 322,484	\$ 280,706
Book awards payable	551,145	804,683
Accrued payroll and benefits	243,736	235,101
Deferred revenue	58,420	199,398
Deferred rent and lease incentives	-	644,316
Operating lease liability	1,782,447	-
TOTAL LIABILITIES	2,958,232	2,164,204
Net Assets		
Without donor restrictions	13,106,331	11,371,967
With donor restrictions	7,578,252	8,836,429
TOTAL NET ASSETS	20,684,583	20,208,396
TOTAL LIABILITIES AND NET ASSETS	\$ 23,642,815	\$ 22,372,600

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

READING IS FUNDAMENTAL, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 3,305,526	\$ 4,700,293	\$ 8,005,819
Donated goods and services	3,454,378	-	3,454,378
Subscriptions and contracts	1,183,934	-	1,183,934
Investment income, net	712,266	342,962	1,055,228
Federal grants	743,571	-	743,571
Other revenue	597,849	-	597,849
Net assets released from restrictions:			
Satisfaction of time restrictions	28,000	(28,000)	-
Satisfaction of program restrictions	6,273,432	(6,273,432)	-
	16,298,956	(1,258,177)	15,040,779
EXPENSES			
Program Services:			
Community literacy awareness	5,021,214	-	5,021,214
Print programs	3,933,120	-	3,933,120
Digital programs	2,121,048	-	2,121,048
	11,075,382	-	11,075,382
Supporting Services:			
Fundraising	2,017,002	-	2,017,002
Management and general	1,472,208	-	1,472,208
	3,489,210	-	3,489,210
	14,564,592	-	14,564,592
CHANGE IN NET ASSETS	1,734,364	(1,258,177)	476,187
NET ASSETS, BEGINNING OF YEAR	11,371,967	8,836,429	20,208,396
NET ASSETS, END OF YEAR	\$ 13,106,331	\$ 7,578,252	\$ 20,684,583

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

READING IS FUNDAMENTAL, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 4,572,834	\$ 7,398,278	\$ 11,971,112
Donated goods and services	656,538	-	656,538
Subscriptions and contracts	2,325,887	-	2,325,887
Investment loss, net	(1,149,439)	(649,133)	(1,798,572)
Federal grants	6,429	-	6,429
Other revenue	25,759	-	25,759
PPP – Forgiveness of loan and interest	550,367	-	550,367
Net assets released from restrictions:			-
Satisfaction of time restrictions	38,298	(38,298)	-
Satisfaction of program restrictions	4,622,759	(4,622,759)	-
	11,649,432	2,088,088	13,737,520
EXPENSES			
Program Services:			
Community literacy awareness	1,149,687	-	1,149,687
Print programs	2,824,643	-	2,824,643
Digital programs	2,015,530	-	2,015,530
	5,989,860	-	5,989,860
Supporting Services:			
Fundraising	1,790,812	-	1,790,812
Management and general	1,515,235	-	1,515,235
	3,306,047	-	3,306,047
	9,295,907	-	9,295,907
CHANGE IN NET ASSETS	2,353,525	2,088,088	4,441,613
NET ASSETS, BEGINNING OF YEAR	9,018,442	6,748,341	15,766,783
NET ASSETS, END OF YEAR	\$ 11,371,967	\$ 8,836,429	\$ 20,208,396

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, 2023

	Program Services			Supporting Services				
	Community Literacy Awareness	Print Programs	Digital Programs	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Salaries and benefits	\$ 786,657	\$ 631,906	\$ 814,320	\$ 2,232,883	\$ 733,546	\$ 782,173	\$ 1,515,719	\$ 3,748,602
Donated goods and services	3,021,297	161,583	115,632	3,298,512	3,828	83,057	86,885	3,385,397
Books and program materials	13,785	2,561,697	58,443	2,633,925	-	-	-	2,633,925
Professional services	311,166	185,203	263,365	759,734	177,504	48,995	226,499	986,233
Printing and reproduction	309,120	51,385	66,086	426,591	350,805	1,428	352,233	778,824
Consulting fees	191,572	33,017	159,126	383,715	14,124	207,310	221,434	605,149
Advertising	40,662	23,657	261,055	325,374	106,087	29,283	135,370	460,744
Rent and other occupancy	84,055	67,519	87,011	238,585	78,380	83,576	161,956	400,541
Postage and delivery	155,883	56,005	110	211,998	142,897	1,847	144,744	356,742
Professional fundraising	-	-	-	-	354,875	-	354,875	354,875
Computer services	26,801	22,209	210,086	259,096	27,721	32,876	60,597	319,693
Travel	43,201	124,263	6,683	174,147	3,892	5,431	9,323	183,470
Accounting services	-	-	-	-	-	101,665	101,665	101,665
Depreciation and amortization	4,737	3,805	60,622	69,164	4,417	2,977	7,394	76,558
Conferences and related costs	10,276	1,839	353	12,468	4,076	26,302	30,378	42,846
Communication services	7,683	6,207	7,917	21,807	7,145	7,604	14,749	36,556
Insurance	-	-	-	-	-	25,015	25,015	25,015
Dues and subscriptions	10,864	120	4,771	15,755	5,144	3,491	8,635	24,390
Legal fees	-	-	2,643	2,643	-	12,627	12,627	15,270
Other services	-	285	-	285	-	14,951	14,951	15,236
Supplies	3,455	2,420	2,825	8,700	2,561	1,600	4,161	12,861
TOTAL EXPENSES	\$ 5,021,214	\$ 3,933,120	\$ 2,121,048	\$ 11,075,382	\$ 2,017,002	\$ 1,472,208	\$ 3,489,210	\$ 14,564,592

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, 2022

	Program Services			Supporting Services				
	Community Literacy Awareness	Print Programs	Digital Programs	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Salaries and benefits	\$ 575,692	\$ 342,106	\$ 641,449	\$ 1,559,247	\$ 544,318	\$ 978,602	\$ 1,522,920	\$ 3,082,167
Donated goods and services	93,847	320,038	114,277	528,162	4,313	26,622	30,935	559,097
Books and program materials	29,923	1,971,684	52,550	2,054,157	-	-	-	2,054,157
Professional services	58,234	27,901	140,478	226,613	172,041	34,101	206,142	432,755
Printing and reproduction	89,144	49	4,000	93,193	376,053	1,870	377,923	471,116
Consulting fees	105,128	21,842	371,726	498,696	42,478	168,789	211,267	709,963
Advertising	42,658	785	177,332	220,775	58,864	2,419	61,283	282,058
Rent and other occupancy	56,209	32,903	87,952	177,064	53,092	97,149	150,241	327,305
Postage and delivery	18,536	55,025	165	73,726	170,696	814	171,510	245,236
Professional fundraising	-	-	-	-	323,264	-	323,264	323,264
Computer services	17,817	11,974	188,402	218,193	15,424	27,504	42,928	261,121
Travel	14,457	11,740	8,481	34,678	105	4,676	4,781	39,459
Accounting services	-	-	-	-	-	55,250	55,250	55,250
Depreciation and amortization	21,378	12,514	200,782	234,674	20,193	36,008	56,201	290,875
Conferences and related costs	7,058	1,730	942	9,730	1,580	21,774	23,354	33,084
Communication services	6,901	4,074	7,654	18,629	6,550	11,624	18,174	36,803
Insurance	-	-	-	-	-	22,794	22,794	22,794
Dues and subscriptions	11,950	216	3,979	16,145	1,105	620	1,725	17,870
Legal fees	-	-	1,050	1,050	-	2,256	2,256	3,306
Other services	-	9,703	13,667	23,370	13	17,709	17,722	41,092
Supplies	755	359	644	1,758	723	4,654	5,377	7,135
TOTAL EXPENSES	\$ 1,149,687	\$ 2,824,643	\$ 2,015,530	\$ 5,989,860	\$ 1,790,812	\$ 1,515,235	\$ 3,306,047	\$ 9,295,907

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, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 476,187	\$ 4,441,613
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	76,558	290,875
Amortization of operating right-of-use asset	265,099	-
Unrealized (gains) losses on investments	(709,190)	2,439,643
Realized gains on sales of investments	(48,874)	(490,908)
Loss on disposal of property	-	13,667
PPP – Interest expense	-	6,392
PPP – Forgiveness of loan and interest	-	(550,367)
Changes in assets and liabilities:		
Pledges and other receivables	(114,994)	(2,166,104)
Federal grant receivable	6,429	(6,429)
Prepaid expenses and other assets	(167,771)	(405,886)
Accounts payable and accrued expenses	41,778	139,162
Book awards payable	(253,538)	299,552
Accrued payroll and benefits	8,635	37,665
Deferred revenue	(140,978)	65,150
Deferred rent and lease incentives	-	(74,800)
Operating lease liability and operating right-of-use asset, net	(295,879)	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(856,538)	4,039,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property	(219,131)	(283,010)
Proceeds from maturities and sale of investments	1,160,019	2,429,902
Purchases of investments	(1,364,841)	(2,584,294)
NET CASH USED IN INVESTING ACTIVITIES	(423,953)	(437,402)
NET (DECREASE) INCREASE IN CASH	(1,280,491)	3,601,823
CASH, BEGINNING OF YEAR	9,980,074	6,378,251
CASH, END OF YEAR	\$ 8,699,583	\$ 9,980,074
NONCASH FINANCING ACTIVITIES		
PPP – Forgiveness of loan and interest	\$ -	\$ 550,367

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, 2023 and 2022

(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 RIF's eBook platform and 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 literacy resources to reach children in need where they are with the help of thousands of volunteers and local programs throughout the country.

(b) *Organization*

RIF works with over 8,000 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. This program educates, builds community, and inspires children to make greater choices for themselves – to choose learning, and to choose success in school and in life. Funded by a variety of individual donors, corporations, and foundation partners, and working through local community programs, RIF distributes books to children that are free to the children and their families. This program gives children agency, allowing them to 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

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2023 and 2022

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

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

Print Programs (continued)

engagement and provide an opportunity for the employees of funders to actively participate in the program. Focusing on access and choice, students in communities throughout the country participate in a Books 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 families. By motivating children to read through book choice, engaging them in topics that appeal to them, and providing them with more opportunities to read, this program will enable children to become more proficient readers and, through reading, learn. These books are further supported through digital resources on RIF's Literacy Central to ensure ongoing reading engagement.

Literacy Kits are an innovative model for book distribution to support the Books for Ownership program and engage volunteers at a broader scale. Literacy Kits provide students with critical access to books and reading resources and the opportunity to build their at-home libraries. The program empowers volunteers in local communities to assemble kits for each participating student that contain up to 3 books, literacy engagement activities, and other resources to create a joy of reading. The volunteers distribute the kits to students in under resourced communities through schools or school-adjacent organizations. The recipient organizations are encouraged to host book celebration events that incorporate family and community engagement, cultivating a culture of literacy. Funded by a variety of corporate and foundation partners, often as an employee engagement activity, and working with local community programs, RIF coordinates the distribution of these pre-made kits to students that are free to them and their families. The books included in the kits 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, 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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2023 and 2022

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

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

Digital Programs (continued)

- **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 programs.
- **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 the same carefully 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 thematic 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 engages with independent outside experts to evaluate RIF's program activities to identify areas of need and establish procedures for continuous quality improvement.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

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

(a) **Investments**

Investments are reported at fair value and consist of mutual funds and money market funds held for investment purposes. 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 donor.

(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, 2023 and 2022, 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 or amortization 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*

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

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

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

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) **Right of Use Asset and Lease Liability**

RIF determines if an arrangement is or contains a lease at inception. Leases, excluding those with terms of one year or less, are included in operating right-of-use (ROU) asset and operating lease liability in the statement of financial position. The ROU asset and operating lease liability are recognized at the commencement date of the lease agreements based on the present value of lease payments over the lease term using the risk-free rate and are adjusted for lease incentives. The ROU asset is amortized on a straight-line basis over the lease term and is reflected as rent and other occupancy expense in the accompanying statements of functional expenses. The operating lease liability is reduced as cash payments are made under the terms of the leases. Short-term operating leases, which have an initial term of 12 months or less, are not recorded on the statement of financial position. Instead, the lease payments of those leases are reported as rent expense on a straight-line basis over the lease term.

(e) **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. As of both September 30, 2023 and 2022, the Board had 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.

(f) **Federal Grant Revenue**

Revenue from cost-reimbursable grants with the U.S. Department of Education is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs. Revenue recognized on grants that has not been collected from the U.S. government is reflected as federal grant receivable in the accompanying statements of financial position.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

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

(g) *Subscriptions and 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. These amounts are included in subscriptions revenue in the accompany statements of activities. Funds received under these subscriptions that have not yet been earned are reflected as deferred revenue in the accompanying statements of financial position.

(h) *Contributions*

Unconditional contributions, including in-kind services, are recognized as revenue in the period in which they are received or when unconditional promises to give are made. Unconditional contributions are considered available for unrestricted use unless specifically restricted by the donor. 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 in the accompanying statements of activities. 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. Conditional contributions are not included as revenue until such time as the conditions are substantially met, that is, when the barrier(s) in the agreement are met. Any conditional amounts received in advance are included in deferred revenue in the accompanying statements of financial position. 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.

(i) *Employee Retention Tax Credit*

The Employee Retention Tax Credit (ERTC) was first established by the Coronavirus Aid, Relief, and Economic Security Act and was extended and expanded by the Consolidated Appropriations Act and the American Rescue Plan. RIF must meet certain conditions as described in applicable laws and regulations. RIF has determined that it qualifies for the ERTC, and therefore, is accounting for it as conditional grants under Financial Accounting Standards Board Accounting Standards Codification Subtopic 958-605. These grants are conditional upon certain performance requirements and the incurrence of eligible expenses. In the opinion of management, these conditions were met as of September 30, 2023, and therefore, the entire amount of \$545,121 that RIF expects to receive is reflected

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

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

(i) **Employee Retention Tax Credit** (*continued*)

as other revenue in the accompanying statement of activities and is included in pledges and other receivables in the accompanying statement of financial position. Eligibility for the credit and the credit calculations are subject to review and approval by the Federal government. In the opinion of management, the results of such reviews and audit will not have a material effect on the financial position of RIF as of September 30, 2023, and on the changes in its net assets for the year then ended. There was no ERTC revenue recognized during the year ended September 30, 2022.

(j) **Donated Goods and Services**

Donated goods represent the value of donated advertising, media, and books. Donated services represent legal assistance and consulting services and are recognized as donated services at their estimated fair value if they create or enhance nonfinancial assets or they require specialized skills that would need to be purchased if they were not donated. Donations are recorded based on their fair value at the date of donation and are included in the community literacy awareness, digital programs, print programs, and management and general expenses in the accompanying statements of activities and functional expenses when utilized. Donated goods and services are not sold and were utilized by RIF for its programs and supporting services. There were no donor-imposed restrictions associated with the donated goods and services.

(k) **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 unconditional book award is made to the local program and partner organizations. Unconditional grant funds transferred to local programs' or partner organizations' bookstore accounts for book awards that are not used by local programs or partner organizations in the year awarded are recorded as book awards payable in the accompanying statements of financial position. As of September 30, 2023 and 2022, all book awards payable were scheduled to be paid within one year. As of September 30, 2023 and 2022, there were no conditional amounts related to the book awards payable.

(l) **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.

(m) **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 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

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

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

(m) **Functional Allocation of Expenses** *(continued)*

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 and digital campaigns that qualify under accounting standards as joint costs are allocated based on the line counts of the direct mail pieces and the content of the digital campaigns.

(n) **Recently Adopted Accounting Pronouncements**

On October 1, 2022, RIF adopted FASB ASC 842, *Leases* (ASC 842). RIF determines if an arrangement contains a lease at inception based on whether RIF has the right to control the asset during the contract period and other facts and circumstances. RIF elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification. RIF's only lease at the time of adoption that required recognition on the statement of financial position was the Washington, DC office space lease as described in Note 13. RIF used the risk-free rate, as permitted under ASC 842 for non-public entities, of 3.97% when discounting future non-cancellable lease payments.

The adoption of ASC 842 resulted in the recognition of an operating right-of-use asset of \$1,751,854, which is net of deferred rent and lease incentives of \$644,316 and includes a reclassification of \$317,844 of net leasehold improvements from property to operating right-of-use asset, and an operating lease liability of \$2,078,326 as of October 1, 2022. Results for periods beginning prior to October 1, 2022 continue to be reported in accordance with RIF's historical accounting treatment. The adoption of ASC 842 did not have a material impact on RIF's result of operations and cash flows.

(o) **New Accounting Pronouncements**

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 *Financial Instruments – Credit Losses – (Topic 326)*. This ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance applies to loans, accounts receivable, trade receivables and other financial assets measured at amortized costs, loan commitments, debt securities and beneficial interests in securitized financial assets, but the effect on RIF is projected to be limited to accounts receivable. The guidance is effective for RIF's fiscal year beginning October 1, 2023. RIF is evaluating the impact this ASU will have on its financial statements.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(3) Investments

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

	2023	2022
Equity mutual funds	\$ 5,228,598	\$ 4,641,876
Corporate and government bond mutual funds	3,320,474	3,156,480
Money market funds	387,131	174,961
Total Investments	\$ 8,936,203	\$ 7,973,317

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

	2023	2022
Interest from cash	\$ 104,009	\$ 149
Interest and dividend income from investments	235,191	194,125
Realized gains	48,874	490,908
Unrealized gains (losses)	709,190	(2,439,643)
Investment management fees	(42,036)	(44,111)
Investment Income (Loss), Net	\$ 1,055,228	\$ (1,798,572)

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2023, 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	\$ 5,228,598	\$ 5,228,598	\$ -	\$ -
Corporate and government bond mutual funds	3,320,474	3,320,474	-	-
Money market funds	387,131	387,131	-	-
Total Investments	\$ 8,936,203	\$ 8,936,203	\$ -	\$ -

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(3) Investments (continued)

The following table summarizes RIF's investments measured at fair value on a recurring basis as of September 30, 2022, 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	\$ 4,641,876	\$ 4,641,876	\$ -	\$ -
Corporate and government bond mutual funds	3,156,480	3,156,480	-	-
Money market funds	<u>174,961</u>	<u>174,961</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 7,973,317</u>	<u>\$ 7,973,317</u>	<u>\$ -</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.

(4) Pledges and Other Receivables

Pledges and other receivables consist of amounts due from foundations, trusts, corporations, schools, and individuals. As of September 30, 2023 and 2022, the amounts were scheduled to be paid as follows:

	<u>2023</u>	<u>2022</u>
Within one year	\$ 1,917,568	\$ 706,174
One to five years	<u>1,100,000</u>	<u>2,200,000</u>
Total Pledges and Other Receivables	\$ 3,017,568	\$ 2,906,174
Less: Discount on multi-year pledges	(26,306)	(26,306)
Less: Allowance for doubtful accounts	<u>(6,400)</u>	<u>(10,000)</u>
Pledges and Other Receivables, Net	<u>\$ 2,984,862</u>	<u>\$ 2,869,868</u>

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(4) Pledges and Other Receivables (continued)

Receivables due in one to five years are shown at the present value of estimated future cash flows using a discount rate of 2.45%, which is based on available data for treasury bill interest rates as of the date the unconditional promise to give was made with an additional 2% to account for risk.

As of September 30, 2023 and 2022, 90% and 76%, respectively, of the net receivable balance was due from one donor.

As of September 30, 2023, an ERTC receivable of \$545,121, as described in Note 2, is included in pledges and other receivables. The full amount is considered fully collectible and is due within one year. RIF submitted its application for the ERTC in September 2023. The full ERTC receivable balance remains uncollected as of the date the financial statements were available to be issued. As of September 30, 2022, there was no ERTC receivable.

(5) Donated Goods and Services

For the years ended September 30, 2023 and 2022, RIF recognized approximately \$3,000,000 and \$106,000 respectively, in revenue related to contributions of donated media and advertising. The reported fair value of the donated media and advertising is based on prices that would have been paid if RIF had purchased the donated media or advertising. The total fair value of donated media and advertising is included in donated goods and services revenue and program services and fundraising expenses in the accompanying statements of activities.

For the years ended September 30, 2023 and 2022, RIF recognized approximately \$320,000 and \$524,000 respectively, in revenue related to donated books to support literacy programs. Donated books are reported at \$3 per book for items received on or before December 31, 2021 and \$4 per book thereafter. This represents the estimated fair value based on management's analysis of the average cost for similar books. The total fair value of donated books received during the years ended September 30, 2023 and 2022, is included in donated goods and services revenue. Donated books used in RIF's programmatic work during the years ended September 30, 2023 and 2022, totaled approximately \$230,000 and \$426,000 respectively, and are included in program services expenses in the accompanying statements of activities. To the extent donated books received in a given year are not used in RIF's programs in that same year, they are included in other assets in the accompanying statements of financial position for later use in fulfilling RIF's mission.

Additionally, RIF recognized approximately \$131,000 and \$26,000 of donated legal and consulting services for the years ended September 30, 2023 and 2022, respectively. These services, which require specialized skill, are recognized as donated contributions at fair value when provided. The estimated fair value of these professional services are based on current market rates for similar professional services. These amounts are included in donated goods and services revenue and program services and management and general in the accompanying statements of activities.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(6) Property

Property consisted of the following as of September 30:

	2023	2022
Furniture and equipment	\$ 285,128	\$ 257,944
Computers, software, and website design	1,098,316	971,422
Leasehold improvements	-	586,714
Software under development	150,360	109,440
Total Property	1,533,804	1,925,520
Less: Accumulated Depreciation and Amortization	(1,074,044)	(1,290,489)
Property, Net	\$ 459,760	\$ 635,031

Total depreciation and amortization expense was \$76,558 and \$290,875 for the years ended September 30, 2023 and 2022, respectively.

As described in Note 2, RIF adopted ASC 842 as of October 1, 2022 and as a result, net leasehold improvements of \$317,844 related to the Washington, DC office lease were reclassified from property to operating right-of-use asset as the leasehold improvements were determined to be lessor assets under ASC 842.

(7) Revenue from Contracts with Customers

RIF's liabilities from subscriptions and other contract services consisted of the following as of September 30:

	2023	2022	2021
Skybrary subscriptions	\$ 55,381	\$ 101,692	\$ 125,702
Other contract services	3,039	97,706	8,546
Deferred Revenue	\$ 58,420	\$ 199,398	\$ 134,248

All deferred revenue is recognized as revenue within one year.

RIF's receivables from subscriptions and other contract services are included in pledges and other receivables in the accompanying statements of financial position and consisted of the following as of September 30:

	2023	2022	2021
Skybrary subscriptions	\$ 27,517	\$ 23,939	\$ 28,641
Other contract services	57,929	335,615	33,969
Receivables	\$ 85,446	\$ 359,554	\$ 62,610

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(7) Revenue from Contracts with Customers (continued)

All receivables from subscriptions and other contract services with customers are scheduled to be collected within one year. There is no allowance for doubtful accounts associated with receivables from subscriptions and other contracts services with customers for the years ended September 30, 2023 and 2022.

The following table shows RIF's revenue from subscriptions and other contracts services with customers disaggregated by service type:

	2023	2022
Skybrary subscriptions	\$ 329,244	\$ 452,255
Other contract services	854,690	1,873,632
Subscriptions and Contract Revenue	\$ 1,183,934	\$ 2,325,887

(8) Net Assets

(a) Net Assets Without Donor Restrictions

As of September 30, 2023 and 2022, RIF's net assets without donor restrictions were as follows:

	2023	2022
Undesignated – operating	\$ 9,601,375	\$ 7,867,011
Board-designated:		
Endowment – Working Capital Reserve fund *	3,504,956	3,504,956
Total Net Assets Without Donor Restrictions	\$ 13,106,331	\$ 11,371,967

* 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.

(b) Net Assets With Donor Restrictions

As of September 30, 2023 and 2022, net assets with donor restrictions were restricted for the following purposes or period:

	2023	2022
Subject to expenditure for specified purpose:		
Print Programs	\$ 3,027,463	\$ 3,582,798
Community Literacy Awareness	1,346,840	1,972,536
Digital Programs	169,018	402,037
Accumulated earnings on endowment funds not appropriated for expenditure	221,300	37,427
Total Subject to Expenditure for Specified Purpose	4,764,621	5,994,798

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(8) Net Assets (continued)

(b) Net Assets With Donor Restrictions

	<u>2023</u>	<u>2022</u>
<i>(continued)</i>		
Subject to occurrence of specified events/passage of time:		
General operations	\$ -	\$ 28,000
Subject to Perpetuity:		
Endowment funds	<u>2,813,631</u>	<u>2,813,631</u>
Total Net Assets With Donor Restrictions	<u>\$ 7,578,252</u>	<u>\$ 8,836,429</u>

(9) 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 net assets with perpetual donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument 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.

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.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(9) Endowment Funds (continued)

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

During the year ended September 30, 2023, RIF's endowment had the following activity:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Original Gift Held in Perpetuity</u>	<u>Total</u>
		Accumulated Gains (Losses)		
Endowment net assets, beginning of year	\$ 3,504,956	\$ 37,427	\$ 2,813,631	\$ 6,356,014
Investment income, net	421,621	342,962	-	764,583
Amounts appropriated for expenditures	-	(159,089)	-	(159,089)
Transfers	<u>(421,621)</u>	<u>-</u>	<u>-</u>	<u>(421,621)</u>
Endowment Net Assets, End of Year	<u>\$ 3,504,956</u>	<u>\$ 221,300</u>	<u>\$ 2,813,631</u>	<u>\$ 6,539,887</u>

During the year ended September 30, 2022, RIF's endowment had the following activity:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Original Gift Held in Perpetuity</u>	<u>Total</u>
		Accumulated Gains (Losses)		
Endowment net assets, beginning of year	\$ 3,504,956	\$ 686,560	\$ 2,813,631	\$ 7,005,147
Investment income (loss), net	(842,082)	(649,133)	-	(1,491,215)
Amounts appropriated for expenditures	-	-	-	-
Transfers	<u>842,082</u>	<u>-</u>	<u>-</u>	<u>842,082</u>
Endowment Net Assets, End of Year	<u>\$ 3,504,956</u>	<u>\$ 37,427</u>	<u>\$ 2,813,631</u>	<u>\$ 6,356,014</u>

As of September 30, 2023 and 2022, RIF's endowment funds had the following net asset composition:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Original Gift Held in Perpetuity</u>	<u>Total</u>
		Accumulated Gains (Losses)		
Donor-restricted endowment funds	\$ -	\$ 221,300	\$ 2,813,631	\$ 3,034,931
Board-designated endowment funds	<u>3,504,956</u>	<u>-</u>	<u>-</u>	<u>3,504,956</u>
Total Endowment	<u>\$ 3,504,956</u>	<u>\$ 221,300</u>	<u>\$ 2,813,631</u>	<u>\$ 6,539,887</u>

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(9) Endowment Funds (continued)

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

		2022 With Donor Restrictions		
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	Total
Donor-restricted endowment funds	\$ -	\$ 90,623	\$ 2,813,631	\$ 2,904,254
Board-designated endowment funds	3,504,956	-	-	3,504,956
Underwater endowments	-	(53,196)	-	(53,196)
Total Endowment	<u>\$ 3,504,956</u>	<u>\$ 37,427</u>	<u>\$ 2,813,631</u>	<u>\$ 6,356,014</u>

	2023	2022
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	\$ 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	<u>\$ 2,813,631</u>	<u>\$ 2,813,631</u>

	2023	2022
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	\$ 73,582	\$ 47,924
With purpose restrictions	147,718	(10,497)
Total Endowment Funds Subject to a Time Restriction	<u>\$ 221,300</u>	<u>\$ 37,427</u>

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires RIF to retain as a fund of perpetual duration. As of September 30, 2022, deficiencies of this nature existed in one donor-restricted endowment fund, which had an original gift value of \$2,222,021, a current fair value of \$2,168,825, and a deficiency of \$53,196. This deficiency resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that were deemed prudent by the Board of Directors. 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, 2023, no deficiencies of this nature exist in any of RIF's donor-restricted endowment funds.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(9) Endowment Funds *(continued)*

(c) *Return Objectives and Strategies*

RIF has adopted an investment policy that emphasizes long-term growth, with a secondary objective of providing current income to support operations. 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 as needed for general operations. Each fund's investment earnings is utilized as set forth in the specific applicable endowment agreement. The General Endowment fund's earnings are utilized for general operations.

(10) Paycheck Protection Program Loan

On February 4, 2021, RIF entered into an agreement for a Small Business Administration (SBA) loan with its financial institution under the Paycheck Protection Program in the amount of \$543,975. On April 11, 2022, RIF received full forgiveness of the loan's principal and interest of \$543,975 and \$6,392, respectively from the SBA. This forgiveness of debt is included in the accompanying statement of activities as PPP – Forgiveness of loan and interest.

(11) 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 to employee's individual accounts, the rights to which are immediately vested with the employees. For the years ended September 30, 2023 and 2022, total pension expense was approximately \$131,000 and \$109,000, respectively.

(12) Allocation of Joint Costs

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

	<u>2023</u>	<u>2022</u>
Program Services	\$ 617,187	\$ 161,652
Fundraising	<u>439,113</u>	<u>187,466</u>
Total Allocation of Joint Costs	<u>\$ 1,056,300</u>	<u>\$ 349,118</u>

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(13) Leases

In September 2017, RIF entered into a lease for 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. The lease required a security deposit in the amount of \$80,000 which was reduced to \$56,000 and \$26,000 in 2021 and 2022, respectively, and the \$26,000 security deposit as of both September 30, 2023 and 2022 is included in prepaid expenses and other assets in the accompanying statements of financial position.

As described in Note 2, effective October 1, 2022, RIF adopted ASC 842, which requires lessees to recognize operating leases on the statement of financial position. RIF has recorded an operating right-of-use asset, net of leasehold improvements and deferred rent, and a lease obligation equal to the present value of the future lease payments due under the terms of the lease, discounted at the risk-free rate as permitted under ASC 842 for non-public entities. As of September 30, 2023, RIF's operating right-of-use asset was \$1,486,755 and operating lease liability was \$1,782,447.

RIF rents storage space under a month-to-month lease which does not require recognition on the statements of financial position due to the short-term nature of the lease. RIF also rents office equipment under two leases which are not recognized on the statements of financial position as management has determined that the leases are insignificant to the overall financial statements.

As of September 30, 2022, future minimum rental obligations under the Washington, D.C. office operating lease were as follows:

For the Year ending <u>September 30,</u>	
2023	\$ 366,055
2024	375,208
2025	384,567
2026	394,143
2027	404,046
2028	<u>414,103</u>
Total	<u>\$ 2,338,122</u>

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(13) Leases (continued)

As of September 30, 2023, future minimum rental obligations under the Washington, D.C. office operating lease were as follows:

<u>For the Year ending</u> <u>September 30,</u>	
2024	\$ 375,208
2025	384,567
2026	394,143
2027	404,046
2028	<u>414,103</u>
Total	1,972,067
Less: Present value discount	<u>(189,620)</u>
Lease Liability	<u>\$ 1,782,447</u>

Total occupancy expense, which includes RIF's portion of the rent for the noncancelable office lease, a cancelable storage space lease, and office equipment leases was approximately \$400,000 and \$327,000 for the years ended September 30, 2023 and 2022, respectively. Cash paid for all operating leases for the year ended September 30, 2023 totaled \$422,112. There were no noncash investing and financing transactions related to leasing other than the entry described in Note 2 related to the adoption of ASC 842.

(14) Concentration of Credit Risk

RIF maintains its cash, as well as certificates of deposit and cash equivalents 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, 2023, and 2022 RIF had cash, as well as cash equivalents and certificates of deposit, which exceeded the maximum limit insured by the FDIC by approximately \$333,000 and \$9,626,000, respectively. RIF monitors the creditworthiness of its financial institutions and has not experienced any credit losses on its cash and cash equivalents or certifications of deposit.

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(15) 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, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Cash	\$ 8,699,583	\$ 9,980,074
Pledges and other receivables, net	2,984,862	2,869,868
Federal grant receivable	-	6,429
Investments	<u>8,936,203</u>	<u>7,973,317</u>
Total Financial Assets Available at September 30	<u>20,620,648</u>	<u>20,829,688</u>
Less:		
Amounts unavailable for general expenditures within one year due to donors' restrictions	(7,578,252)	(8,836,429)
Amounts unavailable to management without Board approval	<u>(3,504,956)</u>	<u>(3,504,956)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 9,537,440</u>	<u>\$ 8,488,303</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.

(16) 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, 2023 and 2022, no provision for income taxes was required, as RIF had no net material unrelated business income.

RIF follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax

READING IS FUNDAMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

(16) Income Taxes (*continued*)

positions taken or expected to be taken in a tax return. RIF evaluated its uncertainty in income taxes for the years ended September 30, 2023 and 2022, 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, 2023 and 2022, there are no audits for any tax periods pending or in progress. 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, 2023 and 2022, RIF had no accruals for interest and/or penalties.

(17) Subsequent Events

In preparing these financial statements, RIF has evaluated, for potential recognition or disclosure, events and transactions through February 5, 2024, 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.