Reading Partners

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2013
with comparative totals for the eleven
month period ended June 30, 2012

readingpartners
one tutor. one child. infinite possibilities.

C O N T E N T S

D|Z|H|PHILLIPS
Certified Public Accountants & Advisors

INDEPENDENT AUDITORS' REPORT

Board of Directors
Reading Partners

Report on the Financial Statements

We have audited the accompanying financial statements of Reading Partners (the Organization), which comprise the statement of financial position as of June 30, 2013, 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 Organization'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 Organization'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.

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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 Partners as of June 30, 2013, 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.

Other Matters

Report on Summarized Comparative Information

The financial statements of Reading Partners as of June 30, 2012 and the eleven months then ended, were audited by other auditors whose report dated February 15, 2013, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the eleven month period ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

DZH Phillips LLP

San Francisco, California
January 31, 2014

Reading Partners

STATEMENT OF FINANCIAL POSITION

June 30, 2013
with comparative totals for the eleven month period ended June 30, 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 1,616,322	$ 2,116,877
Receivables		
Accounts, government contracts and grants - net	435,427	357,967
Pledges	492,774	451,765
Donated rent	62,787	60,813
Prepaid expenses	303,267	90,922
Other assets	5,099	5,054
Total current assets	2,915,676	3,083,398
Pledges receivable - long-term - net	1,056,002	145,582
Donated rent receivable - long-term	37,191	96,287
Property and equipment - net	368,912	499,245
Deposits	30,083	22,457
Total assets	$ 4,407,864	$ 3,846,969

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Accounts payable	$ 229,521	$ 324,564
Accrued liabilities	323,965	181,059
Deferred revenue	597,197	1,527,115
Total current liabilities	1,150,683	2,032,738
COMMITMENTS	-	-
NET ASSETS		
Unrestricted net assets:		
Undesignated	1,005,546	138,399
Board designated	200,000	200,000
Temporarily restricted net assets	2,051,635	1,475,832
Total net assets	3,257,181	1,814,231
Total liabilities and net assets	$ 4,407,864	$ 3,846,969

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF ACTIVITIES

Year ended June 30, 2013
with comparative totals for the eleven month period ended June 30, 2012

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Support:				
Government contracts and grants	$ 2,183,543	$ 37,323	$ 2,220,866	$ 2,241,254
Foundation grants	4,523,473	3,315,581	7,839,054	3,242,981
Corporate contributions	40,148	466,362	506,510	593,960
Individual gifts	516,908	85,302	602,210	565,584
Event income	31,423	53,720	85,143	-
Contributions in-kind	2,284,114	-	2,284,114	1,536,623
Total support	9,579,609	3,958,288	13,537,897	8,180,402
Revenue:				
Tutoring service fees	1,582,667	-	1,582,667	773,112
Other	31,348	-	31,348	4,260
Total revenue	1,614,015	-	1,614,015	777,372
Total support and revenue	11,193,624	3,958,288	15,151,912	8,957,774
Net assets released from restrictions	3,382,485	(3,382,485)	-	-
Total support, revenue, and net assets released from restrictions	14,576,109	575,803	15,151,912	8,957,774
Expenses:				
Program services	10,935,517	-	10,935,517	6,750,395
Supporting services:				
Management and general	1,631,096	-	1,631,096	951,602
Fundraising	1,142,349	-	1,142,349	645,560
Total supporting services	2,773,445	-	2,773,445	1,597,162
Total expenses	13,708,962	-	13,708,962	8,347,557
Change in net assets before net assets transferred in from Mission Learning Center	867,147	575,803	1,442,950	610,217
Net assets transferred in from Mission Learning Center	-	-	-	94,396
Change in net assets	867,147	575,803	1,442,950	704,613
Net assets - beginning of year	338,399	1,475,832	1,814,231	1,109,618
Net assets - end of year	$ 1,205,546	$ 2,051,635	$ 3,257,181	$ 1,814,231

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2013
with comparative totals for the eleven month period ended June 30, 2012

	2013					
		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 2013	Total Expenses 2012
Salary and related expenses:						
Salaries and wages	$ 6,001,231	$ 962,768	$ 799,789	$ 1,762,557	$ 7,763,788	$ 4,548,161
Employee benefits	626,527	100,884	74,882	175,766	802,293	398,081
Payroll taxes	494,183	79,136	66,141	145,277	639,460	385,284
Total salaries and related expenses	7,121,941	1,142,788	940,812	2,083,600	9,205,541	5,331,526
In-kind rent and services	2,139,728	81,887	-	81,887	2,221,615	1,108,304
Occupancy	383,622	57,204	15,052	72,256	455,878	281,588
Travel	236,274	13,366	29,875	43,241	279,515	230,495
Consultants and professional services	174,237	136,966	40,536	177,502	351,739	468,077
Books and supplies	156,957	27,020	6,307	33,327	190,284	141,583
In-kind goods	119,621	-	-	-	119,621	271,219
Professional development	44,023	4,662	1,962	6,624	50,647	15,432
Other	439,456	145,838	89,506	235,344	674,800	398,620
Total expenses before depreciation	10,815,859	1,609,731	1,124,050	2,733,781	13,549,640	8,246,844
Depreciation	119,658	21,365	18,299	39,664	159,322	100,713
Total functional expenses	$ 10,935,517	$ 1,631,096	$ 1,142,349	$ 2,773,445	$ 13,708,962	$ 8,347,557

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF CASH FLOWS

Year ended June 30, 2013
with comparative totals for the eleven month period ended June 30, 2012

	2013	2012
Cash flows provided by (used in) operating activities:		
Change in net assets	$ 1,442,950	$ 704,613
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net assets transferred in from Mission Learning Center	-	(94,396)
Depreciation	159,322	100,713
Donated rent	57,122	(157,100)
Changes in operating assets and liabilities		
Receivables	(1,028,889)	(496,446)
Prepaid expenses	(212,345)	(52,053)
Other assets	(45)	369
Deposits	(7,626)	(2,626)
Accounts payable	(95,043)	112,505
Accrued liabilities	142,906	127,998
Deferred revenue	(929,918)	1,027,115
Net cash (used in) provided by operating activities	(471,566)	1,270,692
Cash flows provided by (used in) investing activities:		
Net assets transferred in from Mission Learning Center	-	94,396
Purchase of property and equipment	(28,989)	(291,547)
Net cash used in investing activities	(28,989)	(197,151)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(500,555)	1,073,541
Cash and cash equivalents - beginning of year	2,116,877	1,043,336
Cash and cash equivalents - end of year	$ 1,616,322	$ 2,116,877
Supplemental disclosures of noncash operating and investing activities:		
Property and equipment additions in accounts payable	$ -	$ 39,181
Net assets transferred in from Mission Learning Center	$ -	$ 94,396

The accompanying notes are an integral part of this statement.

NOTE A - ORGANIZATION

Reading Partners (formerly YES Reading), is a nonprofit organization that provides free literacy intervention services to elementary schools in under-resourced communities. Reading Partners partners with schools to provide one-on-one literacy tutoring to students who have fallen behind through an in school pullout model.

Reading Partners has grown rapidly over the past year, expanding from 67 program sites in the 2011-2012 school year to 104 program sites nationwide in the 2012-2013 school year, serving over 5,100 students. Reading Partners has broadened its national footprint with deeper expansion in Washington D.C., New York, Baltimore, Maryland and Dallas, Texas. Reading Partners projects that it will serve approximately 7,000 students by the end of the 2013-2014 school year.

NOTE B - PROGRAM SERVICES

One-on-One Reading Program

In its core program, Reading Partners recruits and trains community volunteers to provide one-on-one tutoring for students both during the school day and after school. Reading Partners will take on a dedicated space at the school, transform it into a Reading Center, and place a full time staff member who will supervise all program services and serve as the liaison to classroom teachers. A typical Reading Center will serve between 30 and 90 students.

The primary program component, one-on-one tutoring, is supplemented with parent and family involvement. Students enrolled in the Reading Partners program are seen twice per week for 45-minute one-on-one tutoring sessions with trained community volunteers. The session is comprised of a highly structured, research-based curriculum which allows volunteers with little background in education to be effective tutors.

In the 2012-2013 school year, 88% of Reading Partners’ students successfully accelerated their progress in reading. By the end of the year with Reading Partners, students gained an average of 1.6 months of reading skills per month and more than doubled their rate of learning to narrow their gap with their on-grade level peers.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies are as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net Assets

The net assets of the Organization are reported in groups as follows:

Unrestricted

Undesignated – Net assets that are not subject to donor-imposed stipulations

Board Designated - Reading Partners maintains an operating fund, property and equipment fund plus any net assets designated by the Board for specific purposes. At June 30, 2013, the Board had designated $200,000 for operating fund reserves to cover unexpected expense or revenue needs such as responding to a natural disaster or a significant decrease in donations.

Temporarily Restricted

Net assets received with donor stipulations that limit the use of the assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently Restricted

Net assets subject to donor-imposed stipulations that specify the assets donated be invested to provide a permanent source of income. At June 30, 2013, Reading Partners had no permanently restricted net assets.

Cash and Cash Equivalents

Reading Partners has defined cash and cash equivalents as cash in bank, petty cash on hand, and cash equivalents held in a money market account.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

Accounts, Government Contracts and Grants

The accounts, government contracts and grants receivable consist of amounts due from government agencies under various cost-reimbursement and fee for service agreements. The Organization provides for an allowance for doubtful accounts based on historical collectability and other factors known to management. The Organization has provided for an allowance for uncollectible accounts of $50,000 at June 30, 2013.

Pledges

Unconditional promises to give are recognized as support in the period received as pledges receivable and contributions revenue. Pledges receivable are recorded at their cash value if expected to be collected in one year and at their net realizable if expected to be collected in more than one year. The net realizable value is measured at the present value of future cash flows using a risk-adjusted discounted rate of return applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. For the year ended June 30, 2013, the discount was 5%. Management believes all unconditional promises to give are collectible, therefore, no allowance for doubtful accounts has been provided. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donated Rent

Reading Partners received a contribution of the use of facilities through January 2015. The fair value of the donated rent, adjusted for consumer price index increases, is recorded as donated rent receivable and temporarily restricted net assets. Donated rent is amortized to in-kind rent expense on a monthly basis and shown as net assets released from restriction.

Revenue Recognition

Government Contracts and Grants

Revenues from government contracts and grants are recognized when earned.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Foundation Grants, Corporate Contributions, and Individual Gifts

Foundation grants, corporate contributions and individual gifts are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Grants, contributions and gifts are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions.

Contributions In-Kind

Books

Donated books are recorded at their fair value as of the date of the donation. The value of these books is disclosed in Note H.

Services

Contributed services, which require specialized skills and which Reading Partners would have paid for if not donated, are recorded at their fair value at the time the services are rendered. Reading Partners also receives donated services that do not require specific expertise but which are nonetheless central to Reading Partners' operations. While these contributed services are not reflected in the financial statements, the fair value of these services are disclosed in Note H.

Tutoring Facilities

Reading Partners received donated dedicated space in schools where it provides its core program. The fair value of the donated space is determined by the school based on square footage of the dedicated space and the appropriate market value of rent for a suitable space. The fair value is provided to Reading Partners by the school. The dedicated space is provided for the school year. The value of the donated space is disclosed in Note H.

Other Contributions In-Kind

Donated products and supplies are recorded at their fair value as of the date of the donation. The values of these other in-kind contributions are disclosed in Note H.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Tutoring Service Fees

Tutoring service fees are recognized as unrestricted revenue when earned. During the year ended June 30, 2013, all tutoring service fees were defined as program income per federal grant guidelines, therefore, all tutoring fees earned during the fiscal year were required to be used to pay for expenses incurred related to Reading Partners' federal grants at the locations where earned.

Property and Equipment

Property and equipment are recorded at cost or fair value for donated items. Equipment purchases over $1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 10 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Income Taxes

As determined by the Internal Revenue Service (IRS), Reading Partners is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income taxes under various state codes and statues of California, Washington, D.C., New York, Maryland, Texas, Colorado, North Carolina, and Massachusetts. Accordingly, no provision for income taxes has been made in the accompanying statements.

Each year, management considers whether any material tax position Reading Partners has taken is more likely than not to be sustained upon examination by the applicable tax authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements. Tax returns for years subsequent to June 2010 are subject to examination by federal and state tax authorities.

Deferred Revenue

Deferred revenue represents funds which have been received in advance on a foundation grant and funds to be used as a match for the same grant. Reading Partners recognizes revenue in the same period expenses are incurred.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management's estimate of indirect salary expense allocation is based on individual employee estimated time spent. Management's estimate of other indirect costs is based on salary expense and/or estimated usage.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

Reading Partners maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Reading Partners has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Reading Partners is dependent on federal grants from the Corporation for National and Community Service (CNCS). If the level of these grants varies, there may be a resulting effect upon the level and types of activities and program services offered by Reading Partners. For the year ended June 30, 2013, approximately 69% of Reading Partners' government contracts and grants revenue was from the CNCS.

Reading Partners is dependent on support from foundations. For the year ended June 30, 2013, approximately 45% of the support from foundations was from two foundations. As of June 30, 2013, 70% of all pledges receivable were due from one foundation.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through January 31, 2014, which represents the date the financial statements were available to be issued.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2013, consisted of the following:

Total pledges receivable	$ 1,617,774
Present value discount	(68,998)
	1,548,776
Less: current portion	(492,774)
Total pledges receivable - long-term - net	$ 1,056,002

Pledges receivable are expected to be collected as follows:

Year ending June 30,	
2014	$ 492,774
2015	562,500
2016	562,500
Less: present value discount	(68,998)
Total pledges receivable - net	$ 1,548,776

NOTE E - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of property and equipment at June 30, 2013 consisted of the following:

Curriculum	$ 374,728
Computer equipment	306,345
Furniture and equipment	88,566
Website	16,281
Leasehold improvements	1,911
Domain names	5,520
	793,351
Less: accumulated depreciation	(424,439)
Total property and equipment - net	$ 368,912

NOTE F - LINE OF CREDIT

In October 2012, Reading Partners entered into a promissory note for a $1,000,000 secured line of credit with Union Bank of California. The line of credit is secured by the real and personal property of the Organization. The line of credit bears interest at the Wall Street Journal prime rate plus 1% per annum or 4.25% at June 30, 2013. The line of credit expires on October 31, 2014. As of June 30, 2013 there was no balance outstanding on the line of credit. The promissory note for the line of credit was amended subsequent to year-end (Note L).

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Reading Partners' temporarily restricted net assets as of June 30, 2013 consisted of the following:

Purpose restricted:	
California programs	$ 652,302
General operating support	267,055
Texas programs	221,409
Future period commitments	250,000
Washington D.C. and Maryland school programs	224,283
Other programmatic support	150,873
New York programs	105,537
Reading Partners Plus After-school programs	80,198
Time restricted:	
Donated rent receivable	99,978
Total temporarily restricted net assets	$ 2,051,635

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

Purpose restriction accomplished:	
California programs	$ 1,855,045
General operating support	200,000
New York programs	484,711
Texas programs	347,329
Washington D.C. school programs	325,332
Other programmatic support	89,198
Reading Partners Plus After-school programs	23,748
Time restriction accomplished:	
Donated rent receivable	57,122
Total net assets released from restriction	$ 3,382,485

NOTE H - CONTRIBUTIONS IN-KIND

The fair value of donated books, services, supplies, and facilities are recorded as contributions. During the year ended June 30, 2013, the following in-kind contributions were received by Reading Partners:

Facilities	$ 2,139,728
Legal services	81,887
Books	41,194
Other	21,305
Total contributions in-kind	$ 2,284,114

During the year ended June 30, 2013, Reading Partners also received donated services from volunteers that do not require specific expertise but which are nonetheless central to Reading Partners' operations. During the year ended June 30, 2013, volunteers dedicated approximately 129,100 hours, respectively, to tutoring services. The estimated value of tutoring services based on the nature of the service and the amount of time donated is estimated to be approximately $1,291,500. The value of these services is not reflected in the financial statements.

NOTE I - OPERATING LEASE COMMITMENTS

Reading Partners leases office space in various cities throughout the United States. The leases expire at various periods through 2018 with monthly rental payments ranging from approximately $145 to $31,000. The Organization will receive a rent abatement of $147,398 for the period from September 2013 through July 2014 on its office lease agreement in Oakland, California. Rent expense for the year ended June 30, 2013, was $233,710.

Future minimum lease payments are as follows:

Year ending June 30,	
2014	$ 200,001
2015	333,483
2016	341,171
2017	350,958
2018	362,144
Thereafter	155,554
	$ 1,743,311

NOTE J - CONTINGENCIES

Amounts received and expended by Reading Partners under federally funded programs are subject to audit by oversight governmental agencies. Reading Partners' management believes that potential adjustments, if any, resulting from such audits will not have a significant effect on Reading Partners' financial statements.

NOTE K - EMPLOYEE BENEFIT PLAN

Reading Partners sponsors a defined contribution plan for eligible employees under Section 403(b) of the Internal Revenue Code. All full time employees are eligible for the plan. No contributions were made to this plan by Reading Partners for the year ended June 30, 2013.

NOTE L - SUBSEQUENT EVENT

On July 18, 2013, the Organization entered into a new three year lease agreement for an office in New York, New York. Monthly base rent payments for the new lease is $3,832, which is subject to a 3% escalation clause for each year of the lease.

On August 9, 2013, Reading Partners entered into an asset purchase agreement with Charleston Volunteers for Literacy (CVL), a South Carolina nonprofit corporation and CVL, LLC, a South Carolina limited liability company and wholly-owned subsidiary of CVL for certain assets with a value of approximately $125,000 and one existing grant agreement for $90,000. For consideration, Reading Partners delivered to CVL an amount of cash equal to one dollar. The anticipated closing date of the asset purchase is June 1, 2014.

On October 21, 2013, the line of credit was extended through October 31, 2014 and was amended to increase the amount available from $1,000,000 to $2,000,000.