Reading Partners

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

June 30, 2014 with comparative totals for 2013

C O N T E N T S

DZH 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, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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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INDEPENDENT AUDITORS' REPORT (continued)

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, 2014 and 2013, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Reading Partners 2013 financial statements, and our report dated January 31, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014, on our consideration of Reading Partners' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Reading Partners' internal control over financial reporting and compliance.

DZH Phillips LLP

San Francisco, California
December 30, 2014

Reading Partners

STATEMENT OF FINANCIAL POSITION

June 30, 2014 and 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 1,661,544	$ 1,616,322
Receivables		
Accounts, government contracts and grants - net of allowance for doubtful accounts of $20,455 and $50,000 for 2014 and 2013, respectively.	1,247,104	435,427
Pledges	1,768,710	492,774
Donated rent	38,603	62,787
Prepaid expenses	213,037	303,267
Other assets	7,925	5,099
Total current assets	4,936,923	2,915,676
Pledges receivable - long-term - net	329,308	1,056,002
Donated rent receivable - long-term	-	37,191
Property and equipment - net	589,922	368,912
Deposits	57,721	30,083
Total assets	$ 5,913,874	$ 4,407,864

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Accounts payable	$ 102,988	$ 229,521
Accrued liabilities	990,299	323,965
Deferred rent	142,493	-
Deferred revenue	94,251	597,197
Total current liabilities	1,330,031	1,150,683
COMMITMENTS	-	-
NET ASSETS		
Unrestricted net assets:		
Undesignated	1,924,846	1,005,546
Board designated	200,000	200,000
Temporarily restricted net assets	2,458,997	2,051,635
Total net assets	4,583,843	3,257,181
Total liabilities and net assets	$ 5,913,874	$ 4,407,864

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF ACTIVITIES

Year ended June 30, 2014 with comparative totals for 2013

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Support:				
Government contracts and grants	$ 3,991,712	$ -	$ 3,991,712	$ 2,220,866
Foundation grants	7,200,735	2,468,589	9,669,324	7,839,054
Corporate contributions	543,588	5,000	548,588	506,510
Individual gifts	1,480,314	-	1,480,314	602,210
Student tuition fees	297,074	-	297,074	-
Net income from special events - net of expenses of $49,115 for 2014	119,481	-	119,481	85,143
Contributions in-kind	1,652,815	-	1,652,815	2,284,114
Total support	15,285,719	2,473,589	17,759,308	13,537,897
Revenue:				
Tutoring service fees	2,230,623	-	2,230,623	1,582,667
Other	22,852	-	22,852	31,348
Total revenue	2,253,475	-	2,253,475	1,614,015
Total support and revenue	17,539,194	2,473,589	20,012,783	15,151,912
Net assets released from restrictions	2,066,227	(2,066,227)	-	-
Total support and revenue	19,605,421	407,362	20,012,783	15,151,912
Expenses:				
Program services	14,805,780	-	14,805,780	10,935,517
Supporting services:				
Management and general	2,067,653	-	2,067,653	1,631,096
Fundraising	1,953,058	-	1,953,058	1,142,349
Total supporting services	4,020,711	-	4,020,711	2,773,445
Total expenses	18,826,491	-	18,826,491	13,708,962
Change in net assets before funds transferred from nonprofit organization	778,930	407,362	1,186,292	1,442,950
Funds transferred from nonprofit organization	140,370	-	140,370	-
CHANGE IN NET ASSETS	919,300	407,362	1,326,662	1,442,950
Net assets - beginning of year	1,205,546	2,051,635	3,257,181	1,814,231
Net assets - end of year	$ 2,124,846	$ 2,458,997	$ 4,583,843	$ 3,257,181

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2014 with comparative totals for 2013

	2014					
		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 2014	Total Expenses 2013
Salary and related expenses:						
Salaries and wages	$ 9,084,986	$ 802,501	$ 1,383,202	$ 2,185,703	$ 11,270,689	$ 7,763,788
Employee benefits	896,931	95,862	123,501	219,363	1,116,294	802,293
Payroll taxes	780,230	63,602	105,382	168,984	949,214	639,460
Total salaries and related expenses	10,762,147	961,965	1,612,085	2,574,050	13,336,197	9,205,541
In-kind rent and services	1,706,447	3,470	3,470	6,940	1,713,387	2,221,615
Occupancy	403,064	364,656	38,762	403,418	806,482	455,878
Travel	196,268	17,953	43,491	61,444	257,712	279,515
Consultants and professional services	520,860	199,958	108,047	308,005	828,865	351,739
Books and supplies	309,243	31,659	8,183	39,842	349,085	190,284
In-kind goods	643	80	80	160	803	119,621
Professional development	86,699	3,931	24,950	28,881	115,580	50,647
Other	615,085	457,946	113,990	571,936	1,187,021	674,800
Total expenses before depreciation	14,600,456	2,041,618	1,953,058	3,994,676	18,595,132	13,549,640
Depreciation	159,826	20,266	-	20,266	180,092	159,322
Loss on disposal of property and equipment	45,498	5,769	-	5,769	51,267	-
Total expenses	$ 14,805,780	$ 2,067,653	$ 1,953,058	$ 4,020,711	$ 18,826,491	$ 13,708,962

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF CASH FLOWS

Year ended June 30, 2014 with comparative totals for 2013

	2014	2013
Cash flows provided by (used in) operating activities:		
Change in net assets	$ 1,326,662	$ 1,442,950
Adjustments to reconcile change in net assets to net cash provided (used in) by operating activities:		
Depreciation	180,092	159,322
Loss on disposal of property and equipment	51,267	-
Donated rent	61,375	57,122
Changes in operating assets and liabilities		
Receivables	(1,360,919)	(1,028,889)
Prepaid expenses	90,230	(212,345)
Other assets	(2,826)	(45)
Deposits	(27,638)	(7,626)
Accounts payable	(126,533)	(95,043)
Accrued liabilities	666,334	142,906
Deferred rent	142,493	-
Deferred revenue	(502,946)	(929,918)
Net cash provded by (used in) provided by operating activities	497,591	(471,566)
Cash flows provided by (used in) investing activities:		
Purchase of property and equipment	(452,369)	(28,989)
Net cash provided by (used in) investing activities	(452,369)	(28,989)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	45,222	(500,555)
Cash and cash equivalents - beginning of year	1,616,322	2,116,877
Cash and cash equivalents - end of year	$ 1,661,544	$ 1,616,322

The accompanying notes are an integral part of this statement.

NOTE A - ORGANIZATION

Reading Partners' (the Organization's) mission is to help children become lifelong readers by empowering community volunteers to provide individualized instruction that produces measurable results. The Organization pursues this mission by connecting citizen volunteers with local elementary schools in order to increase the amount of time, resources, and personnel available during the school day and after school to offer students data-driven, one-on-one tutoring. With the vision that all students will have the literacy skills they need to reach their full potential in the classroom and beyond, all efforts target minority and/or low-income students who have fallen behind their peers in reading.

NOTE B - PROGRAM SERVICES

One-on-One Reading Program

The Organization works to ensure that students from low-income homes are empowered to make their own life decisions thanks to proficient reading skills. To that end, the Organization recruits and trains community volunteers to provide individualized instruction in local elementary schools to students whose reading skills have fallen below grade level.

At each school site, the Organization transforms a dedicated space into a fully stocked reading center and recruits and trains 40-100 volunteer tutors. Student-tutor pairs work together for 45 minutes twice a week, following an Individualized Reading Plan tailored to that student's particular needs and strengths. To execute the plan, tutors use the Organization curriculum; a series of research-based, structured lesson plans that progress from phonics instruction for earlier readers to comprehension strategy instruction for more advanced students. Students are assessed three times per year to monitor their progress toward pre-established achievement goals and to help advise tutors on how to best support their students. With close oversight and assistance from senior staff, a trained AmeriCorps member is stationed at each site to provide daily coaching to volunteers and to serve as a liaison to teachers and school staff. A seasoned educator supervises a portfolio of reading centers and ensures consistent results and program fidelity. The results are dramatic: The average student more than doubles his/her rate of learning reading skills while in the program.

The Organization complements in-school tutoring with home involvement strategies like the Take Reading Home program, which provides free age- and skill-appropriate reading materials for students to start home libraries. In addition, twice-yearly reading celebration events engage parents to celebrate the progress students make.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is 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 – At June 30, 2014, the Board designated $200,000 for operating fund reserves to cover unexpected expenses.

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, 2014, the Organization had no permanently restricted net assets.

Cash and Cash Equivalents

The Organization 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.

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, 2014, the discount was 4.25%. 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

The Organization received a contribution for the use of office space 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 (refer to Note H).

Services

Contributed services, which require specialized skills and which the Organization would have paid for if not donated, are recorded at their fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. These contributed services are not reflected in the accompanying financial statements (refer to Note H).

Tutoring Facilities

The Organization receives 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 the space. The fair value is provided to the Organization by the school (refer to Note H).

Other Contributions In-Kind

Donated products and supplies are recorded at their fair value as of the date of the donation (refer to 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, 2014, 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 the Organization's 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 $2,500 (previously $1,000) are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed as incurred. 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), the Organization 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. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Each year, management considers whether any material tax position the Organization 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 2011 are subject to examination by tax authorities.

Deferred Revenue

Deferred revenue represents funds which have been received in advance on a foundation grant with a matching requirement. The Organization recognizes revenue in the period the conditions are met.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Functional Expense Allocation

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

Concentrations of Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

The Organization 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 the Organization. For the year ended June 30, 2014, approximately 64% of the Organization’s government contracts and grants revenue was from the CNCS.

The Organization is also dependent on support from foundations. For the year ended June 30, 2014, approximately 16% of the support from foundations was from one foundation. As of June 30, 2014, 69% of all pledges receivable was due from one foundation.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through December 30, 2014, which represents the date the financial statements were available to be issued.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2014, consisted of the following:

Total pledges receivable	2,113,318
Present value discount	(15,300)
	2,098,018
Less: current portion	(1,768,710)
Total pledges receivable - long-term - net	$ 329,308

Pledges receivable are expected to be collected as follows:

Year ending June 30,	
2015	1,768,710
2016	194,608
2017	150,000
	2,113,318
Less: present value discount	(15,300)
Total pledges receivable - net	$ 2,098,018

NOTE E - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of property and equipment at June 30, 2014 consisted of the following:

Curriculum	$ 653,539
Furniture and equipment	155,996
Website	16,281
Leasehold improvements	20,358
	846,174
Less: accumulated depreciation	(256,252)
Total property and equipment - net	$ 589,922

NOTE F - LINE OF CREDIT

The Organization has a line of credit with Union Bank of California with a range of borrowing which fluctuates from $1,000,000 to $2,000,000 depending on the time of year. 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, 2014. The line of credit expires on October 31, 2015 (refer to Note M). As of June 30, 2014 there was no balance outstanding on the line of credit.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets as of June 30, 2014 consisted of the following:

Purpose restricted	$ 2,423,588
Time restricted	35,409
Total temporarily restricted net assets	$ 2,458,997

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	$ 2,003,960
Time restriction accomplished	62,267
Total net assets released from restriction	$ 2,066,227

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, 2014, the following in-kind contributions were received by the Organization:

Facilities	$ 1,617,313
Legal services	32,913
Books	1,786
Other	803
Total contributions in-kind	$ 1,652,815

During the year ended June 30, 2014, the Organization also received donated services from volunteers that do not require specific expertise but which are nonetheless central to the Organization's operations. During the year ended June 30, 2014, volunteers dedicated extensive hours to tutoring services. The value of these services is not reflected in the financial statements.

NOTE I - OPERATING LEASE COMMITMENTS

The Organization 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 $160 to $31,000. Rent expense for the year ended June 30, 2014, was $338,067.

Future minimum lease payments are as follows:

Year ending June 30,	
2015	$ 458,774
2016	471,968
2017	485,170
2018	424,744
	$ 1,840,656

NOTE J - CONTINGENCIES

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

NOTE K - RETIREMENT PLAN

The Organization 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 employer contributions were made to the plan by the Organization for the year ended June 30, 2014.

NOTE L – CHARLESTON VOLUNTEERS FOR LITERACY

On August 9, 2013, the Organization entered into an asset purchase agreement with Charleston Volunteers for Literacy, a South Carolina nonprofit corporation and Subsidiary (CVL) to acquire the assets and assume the liabilities of CVL for $1. During the year ended June 30, 2014, CVL's liabilities were paid directly by them and a net cash balance of $115,950 was transferred to the Organization. The Organization also secured and expended $90,000 in grant funds originally pledged to CVL. At June 30, 2014 the Organization has a receivable of $24,220 from CVL, net of approximately an estimated $1,240 in remaining liabilities of CVL.

NOTE M - SUBSEQUENT EVENT

On October 28, 2014, the line of credit was extended through October 31, 2015 and was amended to increase the range of borrowing from $2,000,000 to $4,000,000.

SUPPLEMENTAL INFORMATION

Reading Partners

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program	CFDA Number	Pass-through Identifying Number	Federal Expenditures
Direct Awards:			
Corporation for National Community Service:			
AmeriCorps - National	94.006	None Provided	$ 238,376
Total Corporation for National Community Service direct award			238,376
Pass-through Awards from:			
Corporation for National Community Service:			
AmeriCorps - California	94.006	None Provided	819,564
AmeriCorps - Maryland	94.006	None Provided	125,809
AmeriCorps - Washington D.C.	94.006	None Provided	202,160
AmeriCorps - New York	94.006	None Provided	252,700
AmeriCorps - Texas	94.006	None Provided	261,182
Total Corporation for National Community Service pass-through program			1,661,415
Social Innovation Fund (SIF):			
Edna McConnell Clark Foundation	94.019	10S1HNY003	710,130
Mile High United Way	94.019	2012-007	215,970
Total Social Innovation Fund pass-through programs			926,100
Total pass-through programs			2,587,515
Total Federal Expenditures			$ 2,825,891

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Organization under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, change in net assets or cash flows of the Organization.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. CFDA numbers and pass-through entity identification numbers are presented where available.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Reading Partners

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Reading Partners (the Organization), which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DZH Phillips LLP

San Francisco, California
December 30, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Reading Partners

Report on Compliance for Each Major Federal Program

We have audited Reading Partners' (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2014. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (continued)

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

DZH Phillips LLP

San Francisco, California
December 30, 2014

Reading Partners

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	___ yes	x no	
Significant deficiencies identified that are not considered to be material weakness(es)?	___ yes	x none reported	
Noncompliance material to financial statements noted?	___ yes	x no	

Federal Awards

Internal control over major program:		
Material weakness(es) identified?	___ yes	x no
Significant deficiencies identified that are not considered to be material weakness(es)?	___ yes	x none reported
Type of auditor's report issued on compliance for major program:	Unmodified	
Any findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___ yes	x no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
94.006	Corporation for National Community Service
94.019	Social Innovation Fund

Dollar threshold used to distinguish between Type A and B programs: $300,000

Auditee qualified as low-risk auditee? ___ yes x no

Section II – Financial Statements Finding

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

Section IV - Summary Schedule of Prior Year Findings

2013-01: Delays in completion of revenue, deferred revenue and net asset schedules

Condition: Delays were caused during the audit in receiving reconciled schedules for revenue, deferred revenue and net assets.

Criteria: The Organization should be performing a timely month-end and year-end close of the accounting records to ensure timely and accurate reporting to its funders, management, and the Board of Directors.

Cause: As a result of continued expansion of the Organization's operations and increasing complexity in its revenue stream, during the year ended June 30, 2013, the Organization continued to hire personnel to handle growth. However, significant positions, such as the Accounting Manager were not hired until approximately 2 months after the June 30, 2013 year-end. Additionally, the Organization was upgrading major accounting systems including its timekeeping and payroll and the financial general ledger which added additional workload and responsibility to existing staff and new personnel hired to accommodate for growth. These factors contributed to the delay in the reconciliation of schedules supporting three major areas of the Organization's financial statements.

Effect: The Organization did not meet its internal deadline to have its year-end closed within 45 days of the year end.

Recommendation: Due to the nature of the Organization's operations and funding sources, we recommend that Management identify where delays could occur in the reconciliation of key schedules supporting the amounts recorded on the financial statements and reported to external constituents. We further recommend through its month and year-end close process, that Management concentrate its efforts on these key areas of the financial statements so that they take first priority in reconciliation due to the nature of the accounts and transaction classes. Concentrating efforts on these riskier areas will help Management to effectively reconcile and report information during periods of rapid growth and lean staffing.

Section IV - Summary Schedule of Prior Year Findings (continued)

2013-01: Delays in completion of revenue, deferred revenue and net asset schedules (continued)

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and regrets the delay in providing the noted annual closing schedules within the internal goal timeframe. Management has already implemented significant steps in fiscal year 2014 to mitigate the chance of recurrence. These include: 1) implementing the automated payroll/timekeeping system and the new general ledger system noted above; 2) creating and staffing a Payroll Manager position to oversee the new payroll and time and attendance system; staffing of a new accounts receivable position to increase department capacity, and use of additional temporary staff; and, 3) implementation of a third national financial system for the reporting and recording of employee expenses on-line, to streamline their inclusion in monthly closing and reduce labor hours spent on data entry. Management has noted the three financial reporting areas noted as key areas for closing procedures for fiscal year 2014. Year to date reconciliations have been completed for private contribution revenue, government revenue, and all but one category of deferred revenue. Management additionally notes that it did issue recurring internal financial reports in fiscal year 2013, for use in company decision making.

Status of Corrective Action: The Organization has made significant progress in completing the account reconciliations. The process of completing the reconciliations on a timely basis is an ongoing project that is expected to be completed during the next fiscal year.