Reading Partners

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2017 with comparative totals for 2016

readingpartners
one tutor. one child. infinite possibilities.

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the 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, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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, 2017, 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Matters

Report on Summarized Comparative Information

We have previously audited the Reading Partners 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DZH Phillips LLP

San Francisco, California
December 12, 2017

Reading Partners

STATEMENT OF FINANCIAL POSITION

June 30, 2017 with comparative totals for 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 957,671	$ 394,854
Receivables		
Accounts and grants	598,185	618,360
Government contracts	540,400	395,787
Pledges - net	5,968,417	5,727,597
Donated rent	29,935	50,330
Prepaid expenses	238,822	425,063
Other assets	6,159	8,046
Total current assets	8,339,589	7,620,037
Pledges receivable - long-term - net	420,585	2,184,585
Donated rent receivable - long-term	-	25,752
Property and equipment - net	449,157	600,808
Deposits	196,719	161,868
Total assets	$ 9,406,050	$ 10,593,050

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 597,007	$ 402,765
Accrued liabilities	1,172,884	1,212,279
Note payable - bank	2,150,000	-
Deferred rent	67,743	104,689
Total current liabilities	3,987,634	1,719,733
OTHER LIABILITIES		
Note payable - bank	-	3,650,000
Total other liabilities	-	3,650,000
NET ASSETS		
Unrestricted net assets	(827,472)	(811,598)
Temporarily restricted net assets	6,245,888	6,034,915
Total net assets	5,418,416	5,223,317
Total liabilities and net assets	$ 9,406,050	$ 10,593,050

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF ACTIVITIES

Year ended June 30, 2017 with comparative totals for 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Support:				
Government contracts and grants	$ 5,758,622	$ -	$ 5,758,622	$ 4,149,738
Foundation grants	9,137,391	4,175,689	13,313,080	12,956,124
Corporate contributions	2,074,809	148,172	2,222,981	1,374,331
Individual gifts	2,805,232	183,259	2,988,491	1,588,950
Special event income - net of costs of direct benefit to donors of $251,148 and $194,060, respectively	228,134	10,000	238,134	62,319
Contributions in-kind	1,686,938	-	1,686,938	2,051,655
Total support	21,691,126	4,517,120	26,208,246	22,183,117
Revenue:				
Tutoring service fees	4,550,822	-	4,550,822	4,167,968
Rental income	130,741	-	130,741	-
Other income (loss)	(1,955)	-	(1,955)	11,408
Total revenue	4,679,608	-	4,679,608	4,179,376
Total support and revenue	26,370,734	4,517,120	30,887,854	26,362,493
Net assets released from restrictions	4,306,147	(4,306,147)	-	-
Total support and revenue	30,676,881	210,973	30,887,854	26,362,493
Expenses:				
Program services	25,466,085	-	25,466,085	23,278,768
Supporting services:				
Management and general	2,492,731	-	2,492,731	2,817,923
Fundraising	2,733,939	-	2,733,939	2,768,912
Total supporting services	5,226,670	-	5,226,670	5,586,835
Total expenses	30,692,755	-	30,692,755	28,865,603
CHANGE IN NET ASSETS	(15,874)	210,973	195,099	(2,503,110)
Net assets - beginning of year	(811,598)	6,034,915	5,223,317	7,726,427
Net assets - end of year	$ (827,472)	$ 6,245,888	$ 5,418,416	$ 5,223,317

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2017 with comparative totals for 2016

	2017					
		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	2016 Total Expenses
Salary and related expenses:						
Salaries and wages	$ 17,018,199	$ 1,016,460	$ 2,043,739	$ 3,060,199	$ 20,078,398	$ 18,462,604
Employee benefits	2,137,633	165,478	296,716	462,194	2,599,827	2,140,799
Payroll taxes	1,309,244	71,398	155,126	226,524	1,535,768	1,412,178
Total salaries and related expenses	20,465,076	1,253,336	2,495,581	3,748,917	24,213,993	22,015,581
In-kind rent, services, and goods	1,651,444	81,641	-	81,641	1,733,085	2,097,803
Occupancy	953,505	337,870	45,467	383,337	1,336,842	985,436
Travel	218,643	14,409	37,875	52,284	270,927	546,352
Consultants and professional services	349,962	176,323	80,096	256,419	606,381	856,757
Books and supplies	498,579	6,889	4,133	11,022	509,601	519,905
Professional development	26,578	1,410	27,350	28,760	55,338	129,895
Other	1,140,178	594,102	40,465	634,567	1,774,745	1,525,019
Total expenses before depreciation	25,303,965	2,465,980	2,730,967	5,196,947	30,500,912	28,676,748
Depreciation	162,120	26,751	2,972	29,723	191,843	188,855
Total expenses	$ 25,466,085	$ 2,492,731	$ 2,733,939	$ 5,226,670	$ 30,692,755	$ 28,865,603

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF CASH FLOWS

Year ended June 30, 2017 with comparative totals for 2016

	2017	2016
Cash flows provided by (used in) operating activities:		
Change in net assets	$ 195,099	$ (2,503,110)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	191,843	188,855
Donated rent	46,147	46,147
Changes in operating assets and liabilities		
Receivables	1,398,742	(2,524,022)
Prepaid expenses	186,241	(4,934)
Other assets	1,887	(299)
Deposits	(34,851)	(96,607)
Accounts payable	194,242	180,694
Accrued liabilities	(39,395)	11,859
Deferred rent	(36,946)	(23,112)
Net cash provided by (used in) operating activities	2,103,009	(4,724,529)
Cash flows used in investing activities:		
Purchase of property and equipment	(40,192)	(310,153)
Net cash used in investing activities	(40,192)	(310,153)
Cash flows provided by (used in) financing activities:		
Net borrowings (payments) on line of credit	(1,500,000)	3,650,000
Net cash provided by (used in) financing activities	(1,500,000)	3,650,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	562,817	(1,384,682)
Cash and cash equivalents - beginning of year	394,854	1,779,536
Cash and cash equivalents - end of year	$ 957,671	$ 394,854
Supplemental cash flow information:		
Interest paid	$ 165,070	$ 35,975

The accompanying notes are an integral part of this statement.

NOTE A - ORGANIZATION

An evidence-based and community-driven organization, Reading Partners recruits, trains, and supports community volunteers to work one-on-one with students for 45 minutes twice a week, following a structured, easy-to-follow, research-based curriculum. Reading Partners' evidence-based program helps struggling readers in under-resourced schools make the all-important shift from learning to read to reading to learn. With the vision that all students will have the literacy skills they need to reach their full potential, Reading Partners helps students move toward or achieve reading proficiency and become confident, lifelong readers.

In 1999, three community leaders founded Reading Partners. The organization was incorporated as a 501(c)(3) under the name YES Reading in 2001 and changed its name to Reading Partners in 2008. In 2011, Reading Partners grew from a local organization to a national organization. In the 2017-18 school year, we will engage more than 13,500 tutors to serve 11,000 students in 14 geographic regions.

NOTE B - PROGRAM SERVICES

One-on-One Reading Program

Reading Partners empowers elementary students in under-resourced communities to reach their full potential by ensuring they have the foundational reading skills necessary for academic, professional, and life success. To support this effort, we recruit, train, and support community volunteers to provide individualized instruction in local Title I elementary schools to struggling readers. Our program uses an approach customized by grade level: for kindergarteners through second-graders, we focus on students' mastery of key foundational literacy skills; for third- and fourth-graders, we help students develop the complex reading skills necessary to be on track for or at grade-level reading proficiency by the conclusion of the school year.

NOTE B - PROGRAM SERVICES (continued)

One-on-One Reading Program (continued)

In each school with whom we partner, Reading Partners transforms a dedicated space into a reading center and recruits at least 50 volunteer tutors to serve 40 or more students. Our student-tutor pairs work together for 45 minutes twice per week, following an individualized reading plan tailored to each student's particular needs and strengths as well as Reading Partners' strategic goals for student reading achievement. To execute this plan, tutors use Reading Partners' curriculum, a series of research-based, structured lessons plans that focus on knowledge of the alphabet, phonics instruction, fluency, and early comprehension skills for early readers to more advanced comprehension instruction and practice for students who have mastered many of the foundational literacy skills. We assess students three times per year to monitor their progress toward grade-level achievement goals and to help advise tutors on how to best support their students. The results are dramatic: in 2016-17, 83 percent of Reading Partners K-4 students met or exceeded their primary end-of-year literacy growth goal. Additionally, 90 percent of kindergarteners through second-graders mastered grade-appropriate foundational reading skills needed to read at grade level.

Reading Partners supplements in-school tutoring with home involvement strategies such as the Take Reading Home program, which provides free age- and skill-appropriate reading materials for students to start or enhance home libraries. In addition, bi-annual reading celebration events engage parents and families to celebrate students' progress.

In the 2016-17 school year, Reading Partners embarked on the first year of a two-year, independent evaluation study being conducted in partnership with Child Trends, a leading national nonprofit research organization focused on improving the lives and prospects of children, youth, and their families. This project builds upon findings from our two, independent, rigorous impact studies, including deeper exploration of the characteristics and experiences of Reading Partners' volunteer tutors, and a first look at social-emotional learning outcomes for our students. Final study findings, including both years of the study, will be released in fall 2018.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is as follows:

<u>Basis of Presentation</u>

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).

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

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

Unrestricted

Net assets that are not subject to donor-imposed stipulations.

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, 2017, 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 funds held in a money market account.

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.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables (continued)

Pledges

Unconditional promises to give are recognized as support in the period the pledge is made. Pledges receivable are recorded at their cash value if expected to be collected in one year and at their net realizable value 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, 2017, the discount rate was .058%. Management believes all pledges receivable 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 2018. 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 as in-kind rent expense on a monthly basis and shown as net assets released from restrictions.

Revenue Recognition

Government Contracts and Grants

Revenues from government contracts and grants are recognized when earned.

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.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Contributions In-Kind (Note I)

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.

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.

Other Contributions In-Kind

Donated products and supplies are recorded at their fair value as of the date of the donation.

Tutoring Service Fees

Tutoring service fees are recognized as unrestricted revenue when earned. All tutoring service fees are defined as program income per federal grant guidelines. Therefore, all tutoring fees earned during the fiscal year were required to be used to supplement expenses funded by 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 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.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

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.

Deferred Revenue

Deferred revenue represents funds which have been received in advance of services to be performed. The Organization recognizes service fees in the period the services are performed.

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. Other indirect costs are prorated based on salary expense or allocated based on estimated usage.

Concentrations

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits (currently $250,000 per depositor). The Organization has not experienced any losses in such accounts.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations (continued)

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, 2017, approximately 70% of government grant and contract revenues and 13% of total revenue was from the CNCS.

The Organization is also dependent on support from corporations and foundations. As of June 30, 2017, 31% of all pledges receivable were due from one corporation and 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, 2016, from which the summarized information was derived.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through December 12, 2017, which represents the date the financial statements were available to be issued.

NOTE D - LIQUIDITY

As indicated in the accompanying financial statements, during the year ended June 30, 2017, the Organization had an unrestricted net asset deficit of approximately $827,000 and an unrestricted net loss of about $16,000. In addition, working capital of approximately $4.3 million at June 30, 2017 was insufficient to fully fund temporarily restricted net assets of approximately $6.2 million at June 30, 2017.

Management has made significant progress in improving the Organization’s cash flows by controlling costs and finding adequate resources to fund operations. Management reduced the unrestricted net loss from approximately $4 million for the year ended June 30, 2016 to approximately $16,000 for the year ended June 30, 2017. The Organization has a line of credit which is available for use to temporarily fund gaps in cash flows primarily related to cost-reimbursement grants. As of June 30, 2017, the Organization had $1.8 million available under the line of credit. The line of credit matures in January 2018.

The Organization's ability to return to profitability is dependent on its ability to continue to execute the above plans.

NOTE E - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017, consisted of the following:

Total pledges receivable	$	6,393,417
Present value discount		(4,415)
		6,389,002
Less: current portion		(5,968,417)
Total pledges receivable - long-term - net	$	420,585

Pledges receivable are expected to be collected as follows:

Year ending June 30,		
2018	$	5,968,417
2019		160,000
2020		265,000
		6,393,417
Less: present value discount		(4,415)
Total pledges receivable - net	$	6,389,002

NOTE F - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of property and equipment at June 30, 2017 consisted of the following:

Curriculum	$	940,031
Furniture and equipment		166,166
Computers		3,211
Website		16,281
Software		120,766
Leasehold improvements		20,358
		1,266,813
Less: accumulated depreciation		(817,656)
Total property and equipment - net	$	449,157

NOTE G - NOTE PAYABLE - BANK

The Organization has a $4,000,000 line of credit with Union Bank of California that matures on November 1, 2017. Subsequent to year end, the line of credit was extended until January 30, 2018. The line of credit bears interest at the Wall Street Journal prime rate plus 1% per annum (5.25% at June 30, 2017). The line of credit agreement contains financial covenants that require, among other matters, the Organization to maintain a minimum current ratio and total net assets. At June 30, 2017, the balance on the line of credit was $2,150,000.

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets as of June 30, 2017 consisted of the following:

Purpose restricted	$	5,354,023
Time restricted		891,865
Total temporarily restricted net assets	$	6,245,888

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	$	3,140,000
Time restriction accomplished		1,166,147
Total net assets released from restriction	$	4,306,147

NOTE I - CONTRIBUTIONS IN-KIND

The fair value of donated books, services, supplies, and facilities are recorded as contributions. During the year ended June 30, 2017, the following in-kind contributions were received by the Organization:

Facilities	$	1,524,717
Legal services		81,641
Other contributions		80,580
Total contributions in-kind	$	1,686,938

NOTE J - COMMITMENTS

The Organization leases office space in various cities throughout the United States. The leases expire at various periods through 2022 with monthly rental payments ranging from approximately $150 to $51,400. Rent expense for the year ended June 30, 2017, was $1,045,960.

Subsequent to year end, the Organization entered into an agreement to sublease office space at its headquarters.

Future minimum lease payments, reduced by future sublease income, are as follows:

Year ending June 30,		
2018	$	1,132,320
2019		911,975
2020		574,638
2021		474,711
2022		226,964
	$	3,320,608

NOTE K - 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 L - 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 to participate in the plan. No employer contributions were made to the plan by the Organization for the year ended June 30, 2017.