squarmilner

Certified Public Accountants
and Financial Advisors

Reading Partners

Financial Statements
June 30, 2018 with summarized
comparative totals for 2017

READING
PARTNERS

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Reading Partners
Oakland, California

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, 2018, 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.

Auditor's 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 auditor's 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, 2018, 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 as of and for the year ended June 30, 2017 were audited by DZH Phillips LLP, who merged with Squar Milner LLP as of January 1, 2018, and whose report dated December 12, 2017 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

SQUAR MILNER LLP

Squar Milner LLP

San Francisco, California
October 26, 2018

READING PARTNERS
STATEMENT OF FINANCIAL POSITION
June 30, 2018 with Comparative Totals for 2017

ASSETS

		2018		2017
Current Assets				
Cash and cash equivalents	$	814,798	$	957,671
Receivables				
Accounts and grants		797,890		598,185
Government contracts		471,818		540,400
Pledges - net		4,905,436		5,968,417
Donated rent		69,852		29,935
Prepaid expenses		318,786		238,822
Other assets		7,669		6,159
Total current assets		7,386,249		8,339,589
Pledges receivable - long-term - net		4,164,071		420,585
Donated rent receivable - long-term		189,381		-
Property and equipment - net		287,769		449,157
Deposits		145,554		196,719
Total assets	$	12,173,024	$	9,406,050

LIABILITIES AND NET ASSETS

		2018		2017
Liabilities				
Accounts payable	$	207,379	$	597,007
Accrued liabilities		1,199,454		1,172,884
Note payable - bank		-		2,150,000
Deferred revenue		94,000		-
Deferred rent		98,053		67,743
Total liabilities		1,598,886		3,987,634
Net Assets				
Unrestricted net assets (deficit)		(471,913)		(827,472)
Temporarily restricted net assets		11,046,051		6,245,888
Total net assets		10,574,138		5,418,416
Total liabilities and net assets	$	12,173,024	$	9,406,050

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

READING PARTNERS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018 with Summarized Comparative Totals for 2017

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Support				
Foundation grants	$ 6,337,218	$ 9,189,329	$ 15,526,547	$ 13,313,080
Government contracts and grants	5,014,541	29,856	5,044,397	5,758,622
Corporate contributions	1,114,057	281,958	1,396,015	2,222,981
Individual gifts	2,391,448	983,545	3,374,993	3,239,639
Special event income - net of costs of direct benefit to donors	458,779	15,000	473,779	238,134
Contributions in-kind	3,059,791	281,363	3,341,154	1,686,938
Total support	18,375,834	10,781,051	29,156,885	26,459,394
Revenue				
Tutoring service fees	4,289,679	-	4,289,679	4,550,822
Rental income	221,765	-	221,765	128,786
Total revenue	4,511,444	-	4,511,444	4,679,608
Total support and revenue	22,887,278	10,781,051	33,668,329	31,139,002
Net assets released from restrictions	5,980,888	(5,980,888)	-	-
Total support and revenue	28,868,166	4,800,163	33,668,329	31,139,002
EXPENSES				
Program services	23,095,555	-	23,095,555	25,466,085
Supporting services:				
Management and general	2,802,338	-	2,802,338	2,492,731
Fundraising	2,614,714	-	2,614,714	2,985,087
Total supporting services	5,417,052	-	5,417,052	5,477,818
Total expenses	28,512,607	-	28,512,607	30,943,903
CHANGE IN NET ASSETS	355,559	4,800,163	5,155,722	195,099
NET ASSETS - beginning of year	(827,472)	6,245,888	5,418,416	5,223,317
NET ASSETS - end of year	$ (471,913)	$ 11,046,051	$ 10,574,138	$ 5,418,416

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

READING PARTNERS
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018 with Summarized Comparative Totals for 2017

	2018					
		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	2017 Total Expenses
Salaries and related expenses:						
Salaries and wages	$ 14,161,806	$ 1,078,507	$ 1,719,854	$ 2,798,361	$ 16,960,167	$ 20,078,398
Employee benefits	1,992,212	153,932	248,736	402,668	2,394,880	2,599,827
Payroll taxes	1,082,745	77,862	129,540	207,402	1,290,147	1,535,768
Total salaries and related expenses	17,236,763	1,310,301	2,098,130	3,408,431	20,645,194	24,213,993
In-kind rent, services, and goods	3,112,515	2,989	2,989	5,978	3,118,493	1,733,085
Occupancy	1,136,522	509,405	16,145	525,550	1,662,072	1,336,842
Travel	162,631	57,986	41,576	99,562	262,193	270,927
Consultants and professional services	199,142	451,595	144,289	595,884	795,026	606,381
Books and supplies	377,554	83,336	16,017	99,353	476,907	509,601
Professional development	38,722	6,685	4,231	10,916	49,638	55,338
Other	689,208	354,580	549,541	904,121	1,593,329	2,277,041
Total expenses before depreciation	22,953,057	2,776,877	2,872,918	5,649,795	28,602,852	31,003,208
Depreciation	142,498	25,461	645	26,106	168,604	191,843
Total expenses by function	23,095,555	2,802,338	2,873,563	5,675,901	28,771,456	31,195,051
Less expenses netted against special event income on the statement of activities	-	-	(258,849)	(258,849)	(258,849)	(251,148)
Total expenses	$ 23,095,555	$ 2,802,338	$ 2,614,714	$ 5,417,052	$ 28,512,607	$ 30,943,903

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

READING PARTNERS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018 with Comparative Totals for 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,155,722	$ 195,099
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	168,604	191,843
Donated rent	(229,298)	46,147
Changes in operating assets and liabilities		
Receivables	(2,811,628)	1,398,742
Prepaid expenses	(79,964)	186,241
Other assets	(1,510)	1,887
Deposits	51,165	(34,851)
Accounts payable	(389,628)	194,242
Accrued liabilities	26,570	(39,395)
Deferred revenue	94,000	-
Deferred rent	30,310	(36,946)
Net cash provided by operating activities	2,014,343	2,103,009
CASH FLOWS FROM INVSTING ACTIVITIES		
Purchase of property and equipment	(7,216)	(40,192)
Net cash used in investing activities	(7,216)	(40,192)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on line of credit	(2,150,000)	(1,500,000)
Net cash used in financing activities	(2,150,000)	(1,500,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(142,873)	562,817
CASH AND CASH EQUIVALENTS - beginning of year	957,671	394,854
CASH AND CASH EQUIVALENTS - end of year	$ 814,798	$ 957,671
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 54,232	$ 165,070

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

1. 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, using a structured, easy-to-follow, research-based curriculum. Reading Partners' program helps K-5 students in under-resourced schools who struggle with reading gain foundational literacy skills, such as alphabet knowledge, letter-sound correspondence, phonics, and vocabulary, and 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 put students on a path to achieving reading proficiency and becoming 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 2018-19 school year, we will engage approximately 14,000 community tutors to serve over 11,000 students in 14 geographic regions across the country.

2. 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 help students focus on developing mastery of key foundational literacy skills; for third- and fourth-graders, we help students further develop the complex reading skills necessary to be on track for grade-level reading proficiency.

In each school with which 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 the 2017-18 school year, 85 percent of all Reading Partners students were meeting or exceeding their primary end-of-year literacy growth goal. Additionally, 90 percent of kindergarteners through second-graders were developing mastery of grade-appropriate foundational reading skills needed to read at grade level.

2. PROGRAM SERVICES (continued)

One-on-One Reading Program (continued)

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 their home libraries. In addition, bi-annual reading celebration events engage parents and families to celebrate students' progress.

In the 2017-18 school year, Reading Partners concluded the second 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 will be released in late fall 2018.

3. 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

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, 2018, the Organization had no permanently restricted net assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. At June 30, 2018, management believed accounts, government contracts, and grants receivable to be fully collectable, and no allowance was provided.

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, 2018, the discount rate was 2.34%. 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 31, 2022. 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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 or temporarily restricted net assets depending on the nature of donor restrictions.

Conditional promises to give or intentions to give are not recorded in the financial statements until the conditions are substantially met. At June 30, 2018, the Organization did not have any conditional promises to give.

Contributions In-Kind (Note 9)

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 estimated using information 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 with an original purchase price in excess of $2,500 are recorded at cost or fair value for donated items. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets is 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.

3. 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.

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.

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, 2018, approximately 76% of government grant and contract revenues and 12% of total revenue was from CNCS.

The Organization is also dependent on support from foundations. As of June 30, 2018, $6,000,000 (67%) of all pledges receivable were due from one foundation, of which $3,000,000 was collected in July 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017, from which the summarized information was derived.

New Accounting Pronouncements

In August 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. ASU 2016-14 requires expanded presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not yet assessed the potential impact of this guidance on its financial statements.

Reclassifications

Certain reclassifications have been made to prior year balances to confirm to the current year presentation

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through October 26, 2018, which represents the date the financial statements were available to be issued.

4. LIQUIDITY

During the year ended June 30, 2018, the Organization had an increase in unrestricted net assets of approximately $356,000, reducing the unrestricted net assets deficit from approximately $827,000 at June 30, 2017 to $472,000 at June 30, 2018. However, working capital of approximately $5,700,000 at June 30, 2018 was insufficient to fully fund temporarily restricted net assets of approximately $11,000,000 at June 30, 2018.

4. LIQUIDITY (continued)

Management has made significant progress in improving the Organization's cash flows by controlling costs and finding adequate resources to fund operations. The Organization generated positive operating results for the year ended June 30, 2018. 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, 2018, the Organization had $4,000,000 available under the line of credit. The line of credit matures on January 30, 2019.

5. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018, consisted of the following:

Total pledges receivable	$ 9,105,436
Present value discount	(35,929)
	9,069,507
Less: current portion	(4,905,436)
Total pledges receivable - long-term - net	$ 4,164,071

Pledges receivable are expected to be collected as follows:

Year ending June 30,	
2019	$ 4,905,436
2020	3,700,000
2021	375,000
2022	125,000
	9,105,436
Less: present value discount	(35,929)
Total pledges receivable - net	$ 9,069,507

6. PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of property and equipment at June 30, 2018 consisted of the following:

Curriculum	$	951,742
Furniture and equipment		162,904
Website		16,281
Software		116,271
Leasehold improvements		20,358
		1,267,556
Less: accumulated depreciation		(979,787)
Total property and equipment - net	$	287,769

7. NOTE PAYABLE - BANK

The Organization has a $4,000,000 line of credit with Union Bank of California that matures on January 30, 2019. The line of credit bears interest at the Wall Street Journal prime rate plus 0.75% per annum (5.75% at June 30, 2018). 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, 2018, there was no outstanding balance on the line of credit.

8. TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets as of June 30, 2018 consisted of the following:

Purpose restricted	$	2,795,051
Time restricted		8,251,000
Total temporarily restricted net assets	$	11,046,051

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	$	5,134,023
Time restriction accomplished		846,865
Total net assets released from restriction	$	5,980,888

9. CONTRIBUTIONS IN-KIND

The fair value of donated books, services, supplies, and facilities are recorded as contributions. During the year ended June 30, 2018, the following in-kind contributions were received by the Organization:

Facilities	$	3,196,896
Legal services		29,889
Other contributions		114,369
Total contributions in-kind	$	3,341,154

10. 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, 2018.

11. COMMITMENTS

The Organization leases office space in various cities throughout the United States. The leases expire at various periods through 2023 with monthly rental payments of up to $55,600. The Organization also subleases office space at its headquarters. Sublease rental income was $221,765 during the year ended June 30, 2018. Rent expense for the year ended June 30, 2018, was $1,162,483.

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

Year ending June 30,		
2019	$	938,463
2020		835,320
2021		715,360
2022		186,778
2023		15,309
	$	2,691,229

12. 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.

From time to time, the Organization may be a party to certain actions in the ordinary course of business. In the opinion of management, the outcome of such matters, if there were any, would not have a material effect on the financial statements.