

Reading Partners

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2015 with comparative totals for 2014



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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, 2015, 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.

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, 2015, 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

We have previously audited the Reading Partners 2014 financial statements, and our report dated December 30, 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.

Supplemental 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 November 19, 2015, 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
November 19, 2015

Reading Partners

STATEMENT OF FINANCIAL POSITION

June 30, 2015 and 2014

ASSETS		
	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,779,536	\$ 1,661,544
Receivables		
Accounts, government contracts and grants - net of allowance for doubtful accounts of \$20,455 and \$20,455 for 2015 and 2014, respectively.	1,041,592	1,247,104
Pledges	3,904,833	1,768,710
Donated rent	50,330	38,603
Prepaid expenses	420,129	213,037
Other assets	7,747	7,925
Total current assets	7,204,167	4,936,923
Pledges receivable - long-term - net	1,740,882	329,308
Donated rent receivable - long-term	71,899	-
Property and equipment - net	479,510	589,922
Deposits	65,261	57,721
Total assets	\$ 9,561,719	\$ 5,913,874
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 222,071	\$ 102,988
Accrued liabilities	1,200,420	990,299
Deferred rent	127,801	142,493
Deferred revenue	-	94,251
Total current liabilities	1,550,292	1,330,031
COMMITMENTS	-	-
NET ASSETS		
Unrestricted net assets:		
Undesignated	3,291,970	1,924,846
Board designated for operating reserves	200,000	200,000
Temporarily restricted net assets	4,519,457	2,458,997
Total net assets	8,011,427	4,583,843
Total liabilities and net assets	\$ 9,561,719	\$ 5,913,874

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF ACTIVITIES

Year ended June 30, 2015 with comparative totals for 2014

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Support:				
Government contracts and grants	\$ 3,941,652	\$ -	\$ 3,941,652	\$ 3,991,712
Foundation grants	8,013,332	5,061,457	13,074,789	9,669,324
Corporate contributions	893,328	300,000	1,193,328	548,588
Individual gifts	1,804,355	-	1,804,355	1,480,314
Net income from special events - net of expenses of \$98,040 and \$49,115 for 2015 and 2014, respectively	252,209	-	252,209	119,481
Contributions in-kind	2,024,327	-	2,024,327	1,652,815
Total support	<u>16,929,203</u>	<u>5,361,457</u>	<u>22,290,660</u>	<u>17,462,234</u>
Revenue:				
Tutoring service fees	2,948,241	-	2,948,241	2,230,623
Student tuition fees	361,292	-	361,292	297,074
Other	13,830	-	13,830	22,852
Total revenue	<u>3,323,363</u>	<u>-</u>	<u>3,323,363</u>	<u>2,550,549</u>
Total support and revenue	20,252,566	5,361,457	25,614,023	20,012,783
Net assets released from restrictions	<u>3,300,997</u>	<u>(3,300,997)</u>	<u>-</u>	<u>-</u>
Total support and revenue	23,553,563	2,060,460	25,614,023	20,012,783
Expenses:				
Program services	17,682,340	-	17,682,340	14,805,780
Supporting services:				
Management and general	2,154,641	-	2,154,641	2,067,653
Fundraising	2,349,458	-	2,349,458	1,953,058
Total supporting services	<u>4,504,099</u>	<u>-</u>	<u>4,504,099</u>	<u>4,020,711</u>
Total expenses	<u>22,186,439</u>	<u>-</u>	<u>22,186,439</u>	<u>18,826,491</u>
Change in net assets before funds transferred from nonprofit organization	1,367,124	2,060,460	3,427,584	1,186,292
Funds transferred from nonprofit organization	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,370</u>
CHANGE IN NET ASSETS	1,367,124	2,060,460	3,427,584	1,326,662
Net assets - beginning of year	<u>2,124,846</u>	<u>2,458,997</u>	<u>4,583,843</u>	<u>3,257,181</u>
Net assets - end of year	<u>\$ 3,491,970</u>	<u>\$ 4,519,457</u>	<u>\$ 8,011,427</u>	<u>\$ 4,583,843</u>

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2015 with comparative totals for 2014

	2015			Total Supporting Services	Total Expenses 2015	Total Expenses 2014
	Program Services	Supporting Services Management and General	Fundraising			
Salary and related expenses:						
Salaries and wages	\$ 11,545,516	\$ 866,166	\$ 1,623,970	\$ 2,490,136	\$ 14,035,652	\$ 11,270,689
Employee benefits	1,381,745	103,661	194,354	298,015	1,679,760	1,116,294
Payroll taxes	811,854	60,907	114,194	175,101	986,955	949,214
Total salaries and related expenses	13,739,115	1,030,734	1,932,518	2,963,252	16,702,367	13,336,197
In-kind rent, services, and goods	1,940,145	278	278	556	1,940,701	1,714,190
Occupancy	426,773	293,267	66,984	360,251	787,024	806,482
Travel	336,240	22,220	72,638	94,858	431,098	257,712
Consultants and professional services	403,778	149,063	44,000	193,063	596,841	828,865
Books and supplies	303,889	21,479	7,749	29,228	333,117	349,085
Professional development	103,727	4,025	31,014	35,039	138,766	115,580
Other	284,108	615,504	176,206	791,710	1,075,818	1,187,021
Total expenses before depreciation	17,537,775	2,136,570	2,331,387	4,467,957	22,005,732	18,595,132
Depreciation	144,565	18,071	18,071	36,142	180,707	180,092
Loss on disposal of property and equipment	-	-	-	-	-	51,267
Total expenses	\$ 17,682,340	\$ 2,154,641	\$ 2,349,458	\$ 4,504,099	\$ 22,186,439	\$ 18,826,491

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF CASH FLOWS

Year ended June 30, 2015 with comparative totals for 2014

	<u>2015</u>	<u>2014</u>
Cash flows provided by (used in) operating activities:		
Change in net assets	\$ 3,427,584	\$ 1,326,662
Adjustments to reconcile change in net assets to net cash provided (used in) by operating activities:		
Depreciation	180,707	180,092
Loss on disposal of property and equipment	-	51,267
Donated rent	(83,626)	61,375
Changes in operating assets and liabilities		
Receivables	(3,342,185)	(1,360,919)
Prepaid expenses	(207,092)	90,230
Other assets	178	(2,826)
Deposits	(7,540)	(27,638)
Accounts payable	119,083	(126,533)
Accrued liabilities	210,121	666,334
Deferred rent	(14,692)	142,493
Deferred revenue	(94,251)	(502,946)
Net cash provided by operating activities	<u>188,287</u>	<u>497,591</u>
Cash flows used in investing activities:		
Purchase of property and equipment	<u>(70,295)</u>	<u>(452,369)</u>
Net cash used in investing activities	<u>(70,295)</u>	<u>(452,369)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	117,992	45,222
Cash and cash equivalents - beginning of year	<u>1,661,544</u>	<u>1,616,322</u>
Cash and cash equivalents - end of year	<u>\$ 1,779,536</u>	<u>\$ 1,661,544</u>

The accompanying notes are an integral part of this statement.

Reading Partners

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A - ORGANIZATION

Reading Partners' mission is to help children become lifelong readers by empowering community volunteers to provide individualized instruction that produces measurable results. With the vision that all students will have the literacy skills they need to reach their full potential, Reading Partners supports low-income students to move toward or achieve reading proficiency by helping them master key reading skills through data-informed, curriculum-driven, one-on-one volunteer tutoring.

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 2015-16 school year, we will recruit more than 14,000 volunteer tutors to serve 10,300 students in 13 geographic regions.

NOTE B - PROGRAM SERVICES

One-on-One Reading Program

Reading Partners empowers low-income elementary students 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 and train 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 literacy skills necessary to be on track for or at grade-level reading proficiency by the conclusion of the school year.

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 progress from phonics instruction for early readers to comprehension strategy instruction for more advanced students. We assess students three times per year to monitor their progress toward pre-established grade-level achievement goals and to help advise tutors on how to best support their students. The results are dramatic: in 2014-15, eight out of 10 target students in our Emerging Readers curriculum mastered key foundational literacy skills and of the 90 percent of target students who increased their rate of learning, the average student more than doubled his or her rate of learning reading skills while enrolled in the Reading Partners program.

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

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

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, 2015, the Board designated \$200,000 for operating 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.

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets (continued)

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, 2015, 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.

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, 2015, the discount rate was 4.25%. 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.

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 (refer to Note H). 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 (refer to Note H).

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Contributions In-Kind (continued)

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).

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.

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 on a foundation grant with a matching requirement. The Organization recognizes revenue in the period the conditions are met.

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

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. 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. 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, 2015, approximately 11% of total revenue was from the CNCS.

The Organization is also dependent on support from foundations. For the year ended June 30, 2015, approximately 13% of total revenue was from one foundation. As of June 30, 2015, 61% 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, 2015, from which the summarized information was derived.

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through November 19, 2015, which represents the date the financial statements were available to be issued (refer to Notes F and L).

NOTE D - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2015, consisted of the following:

Total pledges receivable	\$ 5,758,166
Present value discount	<u>(112,451)</u>
	5,645,715
Less: current portion	<u>(3,904,833)</u>
Total pledges receivable - long-term - net	<u><u>\$ 1,740,882</u></u>

Pledges receivable are expected to be collected as follows:

	<u>Year ending June 30,</u>	
	2016	\$ 3,904,833
	2017	1,693,333
	2018	<u>160,000</u>
		5,758,166
Less: present value discount		<u>(112,451)</u>
Total pledges receivable - net		<u><u>\$ 5,645,715</u></u>

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

NOTE E - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of property and equipment at June 30, 2015 consisted of the following:

Curriculum	\$ 723,833
Furniture and equipment	155,996
Website	16,281
Leasehold improvements	<u>20,358</u>
	916,468
Less: accumulated depreciation	<u>(436,958)</u>
Total property and equipment - net	<u><u>\$ 479,510</u></u>

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 \$2,000,000 to \$4,000,000 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 (4.25% at June 30, 2015). The line of credit expired on November 1, 2015 but was extended subsequent to year end (refer to Note L). At June 30, 2015 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, 2015 consisted of the following:

Purpose restricted	\$ 4,397,229
Time restricted	<u>122,228</u>
Total temporarily restricted net assets	<u><u>\$ 4,519,457</u></u>

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	\$ 3,246,360
Time restriction accomplished	<u>54,637</u>
Total net assets released from restriction	<u><u>\$ 3,300,997</u></u>

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

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, 2015, the following in-kind contributions were received by the Organization:

Facilities	\$ 1,663,878
Services	277,776
Legal services	80,009
Books	2,145
Other	519
	<hr/>
Total contributions in-kind	<u><u>\$ 2,024,327</u></u>

NOTE I - OPERATING LEASE COMMITMENTS

The Organization leases office space in various cities throughout the United States. The leases expire at various periods through 2020 with monthly rental payments ranging from approximately \$160 to \$31,000. Rent expense for the year ended June 30, 2015, was \$519,160.

Future minimum lease payments are as follows:

<u>Year ending June 30,</u>	
2016	\$ 599,580
2017	503,691
2018	526,348
2019	625,756
2020	18,111
	<hr/>
	<u><u>\$ 2,273,486</u></u>

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.

Reading Partners

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015

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 to participate in the plan. No employer contributions were made to the plan by the Organization for the year ended June 30, 2015.

NOTE L - SUBSEQUENT EVENT

On November 1, 2015, the line of credit was extended through October 31, 2016 with a maximum borrowing limit of \$2,000,000.

SUPPLEMENTAL INFORMATION

Reading Partners

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program	<u>CFDA Number</u>	<u>Pass-through Identifying Number</u>	<u>Federal Expenditures</u>
Direct Awards:			
Corporation for National Community Service:			
AmeriCorps - National	94.006	14EDHCA002	<u>\$ 767,313</u>
Total Corporation for National Community Service direct award			<u>767,313</u>
Pass-through Awards from:			
Corporation for National Community Service:			
AmeriCorps - California	94.006	12ACHCA0010005	811,352
AmeriCorps - Maryland	94.006	12ACHMD0010003	126,340
AmeriCorps - Washington D.C.	94.006	12ACHDC0010001	200,140
AmeriCorps - New York	94.006	12ACHNY0010011	252,700
AmeriCorps - Texas	94.006	10ESHTX0010002	<u>350,279</u>
Total Corporation for National Community Service pass-through program			<u>1,740,811</u>
Social Innovation Fund (SIF):			
Edna McConnell Clark Foundation	94.019	10S1HNY003	38,870
Mile High United Way	94.019	2012-006	<u>444,416</u>
Total Social Innovation Fund pass-through programs			<u>483,286</u>
Total pass-through programs			<u>2,224,097</u>
Total Federal Expenditures			<u><u>\$ 2,991,410</u></u>

Reading Partners

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

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, 2015. 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, 2015, 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 November 19, 2015.

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. 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
November 19, 2015

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, 2015. 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, 2015.

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
November 19, 2015

Reading Partners

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2015

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?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiencies identified that are not considered to be material weakness(es)?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major program:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiencies identified that are not considered to be material weakness(es)?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> 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?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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Reading Partners

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year ended June 30, 2015

Section II – Financial Statements Finding

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.