Reading Partners

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2016 with comparative totals for 2015

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, 2016, 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 entity'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 entity'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, 2016, 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.

INDEPENDENT AUDITORS' REPORT (continued)

### ***Other Matters***

*Report on Summarized Comparative Information*

We have previously audited the Reading Partners 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2015. 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.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of Reading Partners' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Reading Partners' internal control over financial reporting and compliance.

DZH Phillips LLP

San Francisco, California
December 16, 2016

Reading Partners

STATEMENT OF FINANCIAL POSITION

June 30, 2016 with comparative totals for 2015

**ASSETS**

| | 2016 | 2015 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 394,854 | $ 1,779,536 |
| Receivables | | |
| Accounts and grants - net of allowance for doubtful accounts of $0 and $20,455 for 2016 and 2015, respectively | 618,360 | 619,907 |
| Government contracts | 395,787 | 421,685 |
| Pledges - net | 5,727,597 | 3,619,833 |
| Donated rent | 50,330 | 50,330 |
| Prepaid expenses | 425,063 | 420,129 |
| Other assets | 8,046 | 7,747 |
| Total current assets | 7,620,037 | 6,919,167 |
| Pledges receivable - long-term - net | 2,184,585 | 1,740,882 |
| Donated rent receivable - long-term | 25,752 | 71,899 |
| Property and equipment - net | 600,808 | 479,510 |
| Deposits | 161,868 | 65,261 |
| Total assets | $ 10,593,050 | $ 9,276,719 |

**LIABILITIES AND NET ASSETS**

| | 2016 | 2015 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 402,765 | $ 222,071 |
| Accrued liabilities | 1,212,279 | 1,200,420 |
| Deferred rent | 104,689 | 127,801 |
| Total current liabilities | 1,719,733 | 1,550,292 |
| OTHER LIABILITIES | | |
| Note payable - bank | 3,650,000 | - |
| Total other liabilities | 3,650,000 | - |
| COMMITMENTS AND CONTINGENCIES | - | - |
| NET ASSETS | | |
| Unrestricted net assets: | | |
| Undesignated | (811,598) | 3,291,970 |
| Board designated for operating reserves | - | 200,000 |
| Temporarily restricted net assets | 6,034,915 | 4,234,457 |
| Total net assets | 5,223,317 | 7,726,427 |
| Total liabilities and net assets | $ 10,593,050 | $ 9,276,719 |

The accompanying notes are an integral part of this statement.

# Reading Partners

## STATEMENT OF ACTIVITIES

### Year ended June 30, 2016 with comparative totals for 2015

| | 2016 | | | 2015 |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Total |
| Support and revenue: | | | | |
| Support: | | | | |
| Government contracts and grants | $ 4,149,738 | $ - | $ 4,149,738 | $ 3,941,652 |
| Foundation grants | 7,721,124 | 5,235,000 | 12,956,124 | 12,789,789 |
| Corporate contributions | 1,324,331 | 50,000 | 1,374,331 | 1,193,328 |
| Individual gifts | 1,588,950 | - | 1,588,950 | 1,804,355 |
| Net income from special events - net of expenses of $194,060 and $98,040 for 2016 and 2015, respectively | 62,319 | - | 62,319 | 252,209 |
| Contributions in-kind | 2,051,655 | - | 2,051,655 | 2,024,327 |
| Total support | 16,898,117 | 5,285,000 | 22,183,117 | 22,005,660 |
| Revenue: | | | | |
| Tutoring service fees | 4,167,968 | - | 4,167,968 | 2,948,241 |
| Student tuition fees | - | - | - | 361,292 |
| Other | 11,408 | - | 11,408 | 13,830 |
| Total revenue | 4,179,376 | - | 4,179,376 | 3,323,363 |
| Total support and revenue | 21,077,493 | 5,285,000 | 26,362,493 | 25,329,023 |
| Net assets released from restrictions | 3,769,542 | (3,769,542) | - | - |
| Total support and revenue | 24,847,035 | 1,515,458 | 26,362,493 | 25,329,023 |
| Expenses: | | | | |
| Program services | 23,278,768 | - | 23,278,768 | 17,682,340 |
| Supporting services: | | | | |
| Management and general | 2,817,923 | - | 2,817,923 | 2,154,641 |
| Fundraising | 2,768,912 | - | 2,768,912 | 2,349,458 |
| Total supporting services | 5,586,835 | - | 5,586,835 | 4,504,099 |
| Total expenses | 28,865,603 | - | 28,865,603 | 22,186,439 |
| CHANGE IN NET ASSETS | (4,018,568) | 1,515,458 | (2,503,110) | 3,142,584 |
| Net assets - beginning of year, as previously stated | 3,491,970 | 4,519,457 | 8,011,427 | 4,583,843 |
| Prior period adjustment (Note M) | (285,000) | - | (285,000) | - |
| Net assets - beginning of year, as restated | 3,206,970 | 4,519,457 | 7,726,427 | 4,583,843 |
| Net assets - end of year | $ (811,598) | $ 6,034,915 | $ 5,223,317 | $ 7,726,427 |

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016 with comparative totals for 2015

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | Supporting Services | | | | |
| | Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses 2016 | Total Expenses 2015 |
| Salary and related expenses: | | | | | | |
| Salaries and wages | $ 14,854,562 | $ 1,551,425 | $ 2,056,617 | $ 3,608,042 | $ 18,462,604 | $ 14,035,652 |
| Employee benefits | 1,693,030 | 188,241 | 259,528 | 447,769 | 2,140,799 | 1,679,760 |
| Payroll taxes | 1,138,466 | 110,446 | 163,266 | 273,712 | 1,412,178 | 986,955 |
| Total salaries and related expenses | 17,686,058 | 1,850,112 | 2,479,411 | 4,329,523 | 22,015,581 | 16,702,367 |
| In-kind rent, services, and goods | 2,070,272 | - | 27,531 | 27,531 | 2,097,803 | 1,940,701 |
| Occupancy | 651,118 | 299,238 | 35,080 | 334,318 | 985,436 | 787,024 |
| Travel | 459,908 | 34,899 | 51,545 | 86,444 | 546,352 | 431,098 |
| Consultants and professional services | 625,998 | 159,665 | 71,094 | 230,759 | 856,757 | 596,841 |
| Books and supplies | 486,647 | 19,625 | 13,633 | 33,258 | 519,905 | 333,117 |
| Professional development | 97,864 | 3,260 | 28,771 | 32,031 | 129,895 | 138,766 |
| Other | 1,042,816 | 420,517 | 61,686 | 482,203 | 1,525,019 | 1,075,818 |
| Total expenses before depreciation | 23,120,681 | 2,787,316 | 2,768,751 | 5,556,067 | 28,676,748 | 22,005,732 |
| Depreciation | 158,087 | 30,607 | 161 | 30,768 | 188,855 | 180,707 |
| Total expenses | $ 23,278,768 | $ 2,817,923 | $ 2,768,912 | $ 5,586,835 | $ 28,865,603 | $ 22,186,439 |

The accompanying notes are an integral part of this statement.

Reading Partners

STATEMENT OF CASH FLOWS

Year ended June 30, 2016 with comparative totals for 2015

| | 2016 | 2015 |
|---|---|---|
| Cash flows provided by (used in) operating activities: | | |
| Change in net assets | $ (2,503,110) | $ 3,142,584 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 188,855 | 180,707 |
| Donated rent | 46,147 | (83,626) |
| Changes in operating assets and liabilities | | |
| Receivables | (2,524,022) | (3,057,185) |
| Prepaid expenses | (4,934) | (207,092) |
| Other assets | (299) | 178 |
| Deposits | (96,607) | (7,540) |
| Accounts payable | 180,694 | 119,083 |
| Accrued liabilities | 11,859 | 210,121 |
| Deferred rent | (23,112) | (14,692) |
| Deferred revenue | - | (94,251) |
| Net cash provided by (used in) operating activities | (4,724,529) | 188,287 |
| Cash flows used in investing activities: | | |
| Purchase of property and equipment | (310,153) | (70,295) |
| Net cash used in investing activities | (310,153) | (70,295) |
| Cash flows provided by financing activities: | | |
| Net borrowings on line of credit | 3,650,000 | - |
| Net cash provided by financing activities | 3,650,000 | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,384,682) | 117,992 |
| Cash and cash equivalents - beginning of year | 1,779,536 | 1,661,544 |
| Cash and cash equivalents - end of year | $ 394,854 | $ 1,779,536 |
| Supplemental cash flow information: | | |
| Interest paid | $ 35,975 | $ 1,806 |

The accompanying notes are an integral part of this statement.

## 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 2016-17 school year, we will recruit more than 15,000 volunteer tutors to serve 11,190 students in 14 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 use 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 lesson 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 2015-16, 81% of all Reading Partners students met or exceeded their primary end-of-year literacy growth goal. Additionally, 89% of kindergarteners through second-graders mastered the foundational reading skills needed to read at grade level.

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 additional, 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.

*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.

## 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, 2016, 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, 2016, 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.

## 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.

<u>Revenue Recognition</u>

*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 (Note H)*

<u>Books</u>

Donated books are recorded at their fair value as of the date of the donation.

<u>Services</u>

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.

<u>Tutoring Facilities</u>

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.

## 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.

*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 of services to be performed. The Organization recognizes service fees in the period the services are performed.

## 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 (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, 2016, approximately 11% of total revenue was from the CNCS.

The Organization is also dependent on support from foundations. For the year ended June 30, 2016, approximately 12% of total revenue was from one foundation. As of June 30, 2016, 40% 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.

## NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Reclassifications

Certain accounts in the prior year were reclassified to conform with current year presentation.

### Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through December 16, 2016, 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, 2016, the Organization incurred losses of approximately \$2.5 million and had to borrow \$3.65 million from a line of credit to meet cash flow needs. In addition, the Organization had an unrestricted net asset deficit of approximately \$812,000.

The Organization is committed to controlling costs and ensuring adequate resources to fund operations. In addition, the timing of future temporarily restricted net assets is expected to be as follows:

Releases during the fiscal year ending June 30, 2017: \$4,407,996
Releases during the fiscal year ending June 30, 2018: \$1,576,919
Releases during the fiscal year ending June 30, 2019: \$50,000

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

## NOTE E - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2016, consisted of the following:

| | |
|---|---|
| Total pledges receivable | \$ 7,937,597 |
| Present value discount | (25,415) |
| | 7,912,182 |
| Less: current portion | (5,727,597) |
| Total pledges receivable - long-term - net | \$ 2,184,585 |

NOTE E - PLEDGES RECEIVABLE (continued)

Pledges receivable are expected to be collected as follows:

| Year ending June 30, | | |
|---|---|---|
| 2017 | $ | 5,727,597 |
| 2018 | | 2,210,000 |
| | | 7,937,597 |
| Less: present value discount | | (25,415) |
| Total pledges receivable - net | $ | 7,912,182 |

NOTE F - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of property and equipment at June 30, 2016 consisted of the following:

| | | |
|---|---|---|
| Curriculum | $ | 899,839 |
| Furniture and equipment | | 166,166 |
| Computers | | 3,211 |
| Website | | 16,281 |
| Software | | 120,766 |
| Leasehold improvements | | 20,358 |
| | | 1,226,621 |
| Less: accumulated depreciation | | (625,813) |
| Total property and equipment - net | $ | 600,808 |

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. The line of credit bears interest at the Wall Street Journal prime rate plus 1% per annum (4.50% at June 30, 2016). 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, 2016, the balance on the line of credit was $3,650,000.

## NOTE H - TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets as of June 30, 2016 consisted of the following:

| | |
|---|---|
| Purpose restricted | $ 1,700,000 |
| Time restricted | 4,334,915 |
| Total temporarily restricted net assets | $ 6,034,915 |

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 | $ 3,697,228 |
| Time restriction accomplished | 72,314 |
| Total net assets released from restriction | $ 3,769,542 |

## 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, 2016, the following in-kind contributions were received by the Organization:

| | |
|---|---|
| Facilities | $ 1,813,316 |
| Legal services | 27,531 |
| Goods | 210,808 |
| Total contributions in-kind | $ 2,051,655 |

## 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 $160 to $32,000. Rent expense for the year ended June 30, 2016, was $666,669. In addition, the Organization has entered into an executive search agreement with payments through August 2016.

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, | |
|---|---|
| 2017 | $ 1,020,724 |
| 2018 | 938,182 |
| 2019 | 975,040 |
| 2020 | 257,519 |
| 2021 | 159,592 |
| Thereafter | 24,861 |
| | $ 3,375,918 |

## 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, 2016.

## NOTE M - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2016, management determined that a foundation pledge in the amount of $285,000 previously recognized in the prior year was a duplicate from a 2014 grant and should not be reflected in the financial statements. Accordingly, the Organization restated its financial statements for the year ended June 30, 2015. The effect of the restatement was to decrease pledges receivable and foundation grant revenue for the year ended June 30, 2015 by $285,000. The cumulative effect decreased unrestricted net assets at June 30, 2015 by $285,000.

The effect of the restatement on the Organization's financial position and activities at June 30, 2015 and for the year then ended is as follows:

| | As previously reported | Restated |
|---|---|---|
| Pledges receivable | $ 3,904,833 | $ 3,619,833 |
| Foundation grants | $ 13,074,789 | $ 12,789,789 |
| Unrestricted net assets | $ 3,491,970 | $ 3,206,970 |

SUPPLEMENTAL INFORMATION

Reading Partners

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

| **Federal Grantor/Pass-through Grantor/Program** | Federal CFDA Number | Pass-through Identifying Number | Total Federal Expenditures |
|---|---|---|---|
| **Direct Awards:** | | | |
| Corporation for National Community Service: | | | |
| AmeriCorps - National | 94.006 | 14EDHCA002 | $ 808,672 |
| Total Corporation for National Community Service Direct Award | | | 808,672 |
| **Pass-through Awards from:** | | | |
| Corporation for National Community Service: | | | |
| AmeriCorps - California Volunteers | 94.006 | 15ACHY22-C132 | 802,629 |
| AmeriCorps - California Volunteers II (Fixed) | | 13FXHY22-FX12 | 346,920 |
| AmeriCorps - Maryland | 94.006 | 12ACHMD0010003 | 125,087 |
| AmeriCorps - Washington D.C. | 94.006 | 12ACHDC0010002 | 202,160 |
| AmeriCorps - New York | 94.006 | 12ACHNY0010011 | 252,339 |
| AmeriCorps - Texas | 94.006 | 10ESHTX0010002 | 344,975 |
| Total Corporation for National Community Service pass-through program | | | 2,074,110 |
| Social Innovation Fund (SIF): | | | |
| Edna McConnell Clark Foundation | 94.019 | 10S1HNY003 | 200,000 |
| Mile High United Way | 94.019 | 2012-006 | 448,965 |
| Total Social Innovation Fund pass-through programs | | | 648,965 |
| Total pass-through programs | | | 2,723,075 |
| Total Federal Expenditures | | | $ 3,531,747 |

# NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

## NOTE A - BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Reading Partners under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Reading Partners, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Reading Partners.

## 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 Uniform Guidance, 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.

The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

# 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, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2016.

## 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, Finding #**2016-01**.

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*.

**Reading Partners' Response to Findings**

Reading Partners' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Reading Partners' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

DZH Phillips LLP

San Francisco, California
December 16, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE (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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DZH Phillips LLP

San Francisco, California
December 16, 2016

Reading Partners

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

## SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

| | | |
|---|---|---|
| Internal control over major program: | | |
| Material weakness(es) identified? | ___ yes | x no |
| Significant deficiencies identified that are not considered to be material weakness(es)? | ___ yes | x none reported |
| Type of auditor's report issued on compliance for major program: | Unmodified | |
| Any findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) | ___ yes | x no |

Major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 94.006 | Corporation for National Community Service |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and B programs: | $750,000 | |
| Auditee qualified as low-risk auditee? | x yes | ___ no |

## FINDINGS – FINANCIAL STATEMENT AUDIT

### 2016-01: The Organization experienced a delay in reconciling the books at year-end

*Condition*: The audit process uncovered certain errors in the reconciliation of receivables, revenue, and restricted net assets due to the lack of adequate staffing in the Accounting Department.

*Criteria*: The Organization should have a full-time controller to provide detailed oversight over the Organization's many accounting functions in order to ensure a timely and accurate accounting close.

*Cause*: The Organization lacked a Controller to oversee the accurate and timely reconciliation of revenue and restricted net assets. Given its growth and size, the Organization needs a full-time experienced Controller to ensure accurate and timely reconciliations. While the Organization had an Assistant Controller overseeing some of the accounting functions, she left the Organization before the books were fully closed, requiring the CFO to step in and assist with the reconciliations.

*Effect*: As a result of not having a Controller in place, the Organization did not close its books in a timely manner, specifically with regards to revenue recognition and restricted net assets. As a result, the Organization did not have reliable internal financial statements as soon as it would have hoped.

*Recommendation*: Due to the Organization's size and growth, we recommend that the Organization hire a full-time Controller to oversee the day-to-day accounting duties and provide detailed oversight for the numerous accounting department functions. We also recommend that the Organization maintain spreadsheets to track revenue, receivables, and releases from restriction (as applicable) for each contract or grant.

*Views of Responsible Officials and Planned Corrective Actions*:

The Organization has hired a Controller, and they start in January 2017.

## FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE