Reach Out and Read, Inc.

Financial Statements

June 30, 2018

Kevin P. Martin & Associates, P.C.

Reach Out and Read, Inc.

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June 30, 2018

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Kevin P. Martin & Associates, P.C.
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Independent Auditors' Report

To the Board of Directors of
Reach Out and Read, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Reach Out and Read, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 11, 2018. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of the Organization's 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 solely 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 the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

November 15, 2018

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 of
Reach Out and Read, Inc.

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 Reach Out and Read, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2018.

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 entity'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.

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.

Mauricio P. Martinez & Aranda P.C.

November 15, 2018

Reach Out and Read, Inc.

Statement of Financial Position

As of June 30, 2018
With Comparative Totals as of June 30, 2017

	2018	2017
Current Assets		
Operating cash	$ 3,718,565	$ 4,572,988
Cash reserves	839,924	835,193
Total cash and cash equivalents	4,558,489	5,408,181
Accounts receivable	2,985	9,733
Grants receivable, current	2,334,130	1,240,510
Prepaid expenses	13,085	21,728
Total current assets	6,908,689	6,680,152
Property and Equipment		
Furniture and fixtures	23,410	23,410
Computer equipment and software	274,928	21,889
Construction in process	-	26,700
Subtotal	298,338	71,999
Less: accumulated depreciation	(50,627)	(29,745)
Total property and equipment, net	247,711	42,254
Other Assets		
Cash restricted for endowment	111,477	111,477
Grants receivable, long-term	250,000	-
Total other assets	361,477	111,477
Total Assets	$ 7,517,877	$ 6,833,883
Current Liabilities		
Accounts payable	$ 159,262	$ 81,083
Accrued expenses	356,367	917,034
Grants payable	23,096	75,584
Deferred revenue	-	147
Total current liabilities	538,725	1,073,848
Net Assets		
Unrestricted		
Board designated	1,000,000	816,133
Undesignated	1,666,851	1,318,351
Total unrestricted	2,666,851	2,134,484
Temporarily restricted	4,200,824	3,514,074
Permanently restricted	111,477	111,477
Total net assets	6,979,152	5,760,035
Total Liabilities and Net Assets	$ 7,517,877	$ 6,833,883

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

Reach Out and Read, Inc.

Statement of Activities

For the Year Ended June 30, 2018
With Comparative Totals for the Year Ended June 30, 2017

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue					
Contributions	$ 1,798,026	$ 5,495,316	$ -	$ 7,293,342	$ 6,273,970
Donated goods and services	4,702,043	-	-	4,702,043	4,167,236
Special events	-	-	-	-	2,055
Government grants	2,720,885	-	-	2,720,885	2,017,217
Other	-	-	-	-	293
Interest	4,650	-	-	4,650	1,950
Total Support and Revenue	9,225,604	5,495,316	-	14,720,920	12,462,721
Net assets released from restrictions	4,808,566	(4,808,566)	-	-	-
Total	14,034,170	686,750	-	14,720,920	12,462,721
Expenses					
Program	11,244,171	-	-	11,244,171	9,943,380
Management and general	1,034,786	-	-	1,034,786	843,017
Fundraising	1,222,846	-	-	1,222,846	1,393,975
Total Expenses	13,501,803	-	-	13,501,803	12,180,372
Change in Net Assets	532,367	686,750	-	1,219,117	282,349
Net Assets - Beginning of Year	2,134,484	3,514,074	111,477	5,760,035	5,477,686
Net Assets - End of Year	$ 2,666,851	$ 4,200,824	$ 111,477	$ 6,979,152	$ 5,760,035

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

Reach Out and Read, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2018
With Comparative Totals for the Year Ended June 30, 2017

Cash Flows from Operating Activities	2018	2017
Change in net assets	$ 1,219,117	$ 282,349
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	20,882	8,230
Decrease (increase) in assets:		
Accounts receivable	6,748	30,672
Grants receivable	(1,343,620)	(46,907)
Prepaid expenses	8,643	9,448
Security deposits	-	3,145
Increase (decrease) in liabilities:		
Accounts payable	78,179	(393,409)
Accrued expenses	(560,667)	651,657
Grants payable	(52,488)	(14,884)
Deferred revenue	(147)	(22,794)
Net Cash (Used in) Provided by Operating Activities	(623,353)	507,507
Cash Flows from Investing Activities		
Purchase of property and equipment	(226,339)	(26,700)
Net Cash Used in Investing Activities	(226,339)	(26,700)
Net (Decrease) Increase in Cash and Cash Equivalents	(849,692)	480,807
Cash and Cash Equivalents - Beginning	5,408,181	4,927,374
Cash and Cash Equivalents - Ending	$ 4,558,489	$ 5,408,181

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

Reach Out and Read, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2018
With Comparative Totals for the Year Ended June 30, 2017

	Total Program	Management and General	Fundraising	2018 Total	2017 Total
Salaries	$ 2,189,170	$ 347,329	$ 709,531	$ 3,246,030	$ 2,834,300
Payroll taxes and benefits	575,589	81,860	159,716	817,165	719,614
Total employee compensation	2,764,759	429,189	869,247	4,063,195	3,553,914
Books	7,133,303	-	8,006	7,141,309	6,381,652
Coalitions	172,050	-	-	172,050	53,949
Conferences and travel	257,136	21,796	32,156	311,088	270,097
Consulting	448,466	326,790	159,750	935,006	1,173,360
Depreciation		20,882	-	20,882	8,230
Equipment rental and maintenance	63,668	30,266	9,642	103,576	69,669
Literacy materials	37,616	-	-	37,616	45,599
Fiscal sponsorship fees	13,060	-	-	13,060	-
Other expenses	12,550	33,263	35,062	80,875	55,070
Communications and marketing	50,128	25	16,556	66,709	106,853
Other occupancy expenses	1,939	-	120	2,059	11,485
Payroll and HR administration	46,338	575	27,565	74,478	136,182
Postage and delivery	7,783	3,934	29,788	41,505	21,645
Printing and copying	24,173	3,512	10,012	37,697	25,238
Professional fees	-	29,454	-	29,454	19,948
Recruitment	1,409	17,995	9,177	28,581	48,986
Rent	2,641	79,050	800	82,491	71,884
Research and evaluation	36,078	-	-	36,078	18,000
Staff development, education and training	3,230	20,917	326	24,473	11,346
Supplies	11,071	4,999	6,485	22,555	32,156
Telephone and internet	36,715	9,812	8,154	54,681	38,726
Training	120,058	-	-	120,058	22,640
Utilities	-	2,327	-	2,327	3,743
Total Functional Expenses	$ 11,244,171	$ 1,034,786	$ 1,222,846	$ 13,501,803	$ 12,180,372

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

(1) Summary of Significant Accounting Policies

The 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). The significant accounting policies followed by Reach Out and Read, Inc. (the Organization) are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

The Organization was incorporated in the Commonwealth of Massachusetts as a not-for-profit organization under the laws of Massachusetts on July 29, 1999. The Organization is the only national early literacy organization working directly with pediatric care providers to train them to model the value to parents of reading aloud to their children every day. The Organization is driven by the mission to give young children a foundation for success by incorporating books into pediatric care and encouraging families to read aloud together. When families read aloud to their young children, they can give them a better start to life.

The program begins in infancy and continues through age five, with a special emphasis on children growing up in low-income communities. Pediatricians who are involved in the organization share brand-new, age and language appropriate books and literacy advice with children and parents at each well-child visit up to the age of 5. The effectiveness of the Organization's model is recognized by the American Academy of Pediatrics in a policy statement that recommends early literacy promotion as an essential component of pediatric care. The program is both cost-effective, and evidence-based: research shows that our program results in more frequent reading at home, accelerated vocabulary and critical brain development.

Through generous support and revenue from individual contributions, corporate foundations, donated goods and services and government grants, the Organization provides books and training to approved program sites in all 50 states and Washington, DC. Approved program sites are medical facilities that have demonstrated the ability to implement the model and have signed a letter of agreement with the Organization. Funding sources are generated by program sites, regional coalitions and the national center. During the year ending June 30, 2018, approximately 7.2 million books were distributed to approximately 6,000 sites.

(b) Basis of Presentation

The statement of activities reports all changes in net assets, including changes in unrestricted net assets, from operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization's ongoing efforts.

(1) Summary of Significant Accounting Policies - continued

(c) Standards of Accounting and Reporting

The Organization's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (unrestricted, temporarily restricted and permanently restricted) and the statement of activities displays the change in each class of net assets. The classes of net assets applicable to the Organization are presented as follows:

Unrestricted - Unrestricted net assets are not subject to donor-imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Temporarily Restricted - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, 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 - Reflects the original amount of gifts and investment earnings required by the donor to be permanently retained. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

(d) Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Organization maintains its cash balances at a financial institution located in Massachusetts. The cash balances are secured by the Federal Deposit Insurance Corporation (FDIC). At times these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Cash and deposit balance over FDIC limits with BNY Mellon amounted to $5,499,064 as of June 30, 2018. The Organization did not maintain cash balances in excess of FDIC limits in any other financial institution as of June 30, 2018.

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition

The Organization earns revenue as follows:

Government Grants - Grants are recorded as revenue as costs related to the services provided are incurred.

Contributions - Contributions are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Donated Goods - Donated goods are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated goods to a specific purpose.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Company. Volunteers also provided fund-raising and client services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Special Events - Special events revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special events revenue is recognized when earned and is shown net of related direct expenses in the accompanying statement of activities.

Deferred revenue represents government grant income received prior to year-end. These amounts are deferred and recognized over the periods to which the fees relate.

During the year ended June 30, 2018, the Organization derived approximately 81% of its total revenue from corporations and individual grants and contributions, 18% from governmental agencies and 1% from all other sources. All revenue is recorded at the estimated net realizable amounts.

(1) Summary of Significant Accounting Policies - continued

(f) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2018, management has determined any allowance would be immaterial.

The Organization does not have a policy to accrue interest on receivables. The Organization has no policies requiring collateral or other security to secure the accounts receivable.

(g) Grants Receivable

Conditional grants are not recognized in the financial statements until the conditions are substantially met. Unconditional grants that are expected to be collected within one year are recorded at net realizable value. Unconditional grants that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, grants with payments due in future periods are restricted to use after the due date.

Unconditional grants are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual grants. As of June 30, 2018, management has determined any allowance would be immaterial.

All grants receivable as of June 30, 2018 are expected to be collected in fiscal year 2019 with the exception of one grant that is expected to be received over a two-year period with the final installment of $250,000 collected in fiscal year 2020. As of June 30, 2018, management has determined any discount on grants receivable due in more than one year would be immaterial. In addition, credit risk with respect to grants receivable is considered low as a significant portion of the grants receivable are from foundations which have been in operation for multiple years and have reported significant assets.

As of June 30, 2018, the Organization's grants receivable consisted of approximately 78% due from corporations and individuals and 22% due from governmental agencies.

(1) Summary of Significant Accounting Policies - continued

(h) Property and Equipment

Property and equipment are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Organization computes depreciation using the straight-line method over the following estimated lives:

Furniture and fixtures	3-5 years
Computer equipment and software	3-10 years

(i) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Organization and promoting special events.

(j) Special Events

The Organization has determined that special events are incidental to its operations and therefore the direct costs of benefit to the donors is reported with fundraising expense and is not included with special events revenue.

(k) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Payroll and associated costs are allocated to functions based upon actual time charges. Occupancy costs are allocated directly to a given function.

(1) Summary of Significant Accounting Policies - continued

(l) Use of Estimates

In preparing the Organization's financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

(m) Income Taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to income tax. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization is not a private foundation under Section 509(a)(1).

(n) Summarized Financial Information for 2017

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the statement of functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. 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.

(o) Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

(2) Donated Goods and Services

Donated goods and services for the year ended June 30, 2018 were as follows:

Pro-bono outside services:	
Professional services	$ 54,447
Gifts in kind:	
Books and literacy materials	4,647,596
Total revenue recognized	$ 4,702,043

Donated books and literacy materials from one corporation accounted for 83% of the donated goods and services received during the year ended June 30, 2018.

(3) Operating Lease Commitments

The Organization occupies office space under non-cancelable, operating lease agreements with expiration dates through fiscal year 2021. The Organization is also liable for certain real estate tax increases and operating cost adjustments under the office lease terms. The minimum annual operating non-cancelable lease commitments on property for the Organization are as follows:

2019	$ 85,485
2020	87,130
2021	88,775

Rent, common area and property tax expense for the year ended June 30, 2018 was $84,550.

The Organization also leases equipment for use within their office locations. The Organization's current lease agreement goes through January 2021. Future minimum lease payments are as follows:

2019	$ 10,986
2020	10,986
2021	6,409

(4) Commitments and Contingencies - continued

(a) Insperity

The Organization has a co-employee relationship with Insperity, whereby all employees are compensated by Insperity. The Organization pays Insperity for 100% of gross salaries, as well as 25.35% of gross salaries for taxes, benefits and related fees. As of June 30, 2018, $241,599 is owed to Insperity and is included in accrued expenses on the accompanying statement of financial position.

The total salaries, fringe benefits and administrative service fees paid under this agreement were $4,137,674 for the year ended June 30, 2018.

(b) Governmental Agencies

The Organization receives a portion of its funding from governmental agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed, if any, and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Organization's operations are concentrated in the educational field. As such, the Organization operates in a heavily regulated environment. The operations of the Organization are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies.

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by a governmental agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

(5) Restricted Net Assets

(a) Board Restricted Net Assets

The Board of Directors has designated $1,000,000 of accumulated earnings to be used for reserves.

(5) Restricted Net Assets - continued

(b) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2018, temporarily restricted net assets are restricted for the following purposes:

Program	$	3,035,358
Time		1,165,466
Total Temp Restricted Net assets	$	4,200,824

Included in the time restricted net assets is a pledge of $500,000 which the Board of Directors has voted to use the funds, once received, to establish a Board designated endowment; the proceeds of which will be used for new program initiatives.

(c) Permanently Restricted Net Assets

Permanently restricted net assets represent donations with stipulations that they be invested to provide a permanent source of income to defray programmatic costs in accordance with the Organization's endowment spending policy. The permanently restricted donations are being held in money market accounts in order to preserve their fair value. These amounts have been classified as long-term cash reserves on the statement of financial position. Consistent with donor restrictions unrealized gains and losses on these investments follow the treatment of investment income. Accordingly, unrealized gains and losses are reported in the statement of activities as increases or decreases in temporarily restricted net assets. Any excess unrealized losses over corpus are classified as decreases in unrestricted net assets. No excess losses over corpus have occurred as of June 30, 2018.

As of June 30, 2018, permanently restricted net assets totaled $111,477. An immaterial amount of interest was earned and released on these permanent restricted net assets during the year ended June 30, 2018.

(6) Related Party Transactions

The Organization maintains a written conflict of interest policy under which all Directors, Officers, employees and significant consultants provide specific notice to the Organization. The information requested is specific by class of individual and is requested prior to the engagement in any transaction with the Organization. Management is not aware of any transaction occurring with any identified class during the tax year without prior full disclosure of the relationship in accordance with this policy. All compensation rates are approved by independent board members and/or determined by the same policy and processes used to determine rates of compensation for all other employees and/or vendors. All identified transactions received heightened Board of Directors scrutiny in accordance with this policy.

(6) Related Party Transactions - continued

The following transactions were processed in accordance with the Organization's conflict of interest policy:

- a Board member holds a significant position with a major vendor that provides the Organization both donated and purchased books for distribution in their programs, and;
- a Board member holds a significant position with a customer that receives donated books from the Organization.

(7) Endowment

The Organization accepts endowment gifts under the stipulation that the funds are invested in perpetuity. Unless otherwise restricted by the donor, the investment income is to be used in accordance with the Organization's endowment spending policy. The goals of the endowment fund are to provide unrestricted support for the Organization. The Organization's Board of Directors oversees the establishment and revision of goals, spending plans and asset allocations for endowments.

The Organization's endowment consists of $111,477 established for donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Uniform Prudent Management of Institutional Funds Act

The Organization's management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to states to use enacting legislation. UPMIFA was adopted by the Commonwealth of Massachusetts effective June 30, 2009. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending.

The Board of Directors has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Further, per the interpretation, the UPMIFA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

(7) Endowment - continued

(b) Appropriation of Endowment Assets for Expenditure

The Organization considers the following factors in making a determination to appropriate endowment funds for expenditure:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

(c) Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that invest in a thoughtful and prudent manner to preserve and/or enhance the Organization's ability to help provide for the future benefit of the Organization's programs. The oversight of the endowment funds is the responsibility of the Board of Directors. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve the endowment funds' principal, considering inflation and to regulate the long term ability and short term needs to distribute income.

(d) Strategies Employed for Achieving Investment Objectives

To satisfy its objectives, the Organization relies on a return strategy in which investment returns are achieved through current yield (interest and dividends).

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies may result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of June 30, 2018.

(7) Endowment - continued

(f) Composition and Reconciliation of Endowment Funds

The endowment fund is solely comprised of donor-restricted contributions including in permanently restricted net assets on the statement of activities. There are no board-designated endowment funds.

(8) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 15, 2018, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in these financial statements.