



Reading Partners

Financial Statements

June 30, 2024

Reading Partners

Table of Contents
June 30, 2024

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Independent Auditors' Report

To the Board of Directors of
Reading Partners

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Reading Partners (the Organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2024, 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.

Basis for Opinion

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\$PHULFD *\$\$6 2XU UHVSQRVLELOLWLHV XQGHU WKRVH VWDQGDUGV D
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LQGHSHQGHQW RI WKH 2UJDQLJDWLRQ DQG WR PHHW RXU RWKHU HWKL
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DQG DSSURSULGMH WBSLVRIRU RXU DXGLW RSLQLRQ

Responsibilities of Management for the Financial Statements

Management is responsible

In performing an audit in accordance with GAAS, we:

- x Exercise professional judgment and maintain professional skepticism throughout the audit.
- x identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- x Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- x Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- x Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Reading Partners 2023 financial statements, and we expressed an unmodified opinion on those financials statements in our report dated November 9, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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Reading Partners

Statement of Financial Position

June 30, 2024

With Summarized Comparative Totals for 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,140,700	\$ 4,248,273
Investments	21,259,524	24,911,728
Receivables:		
Grants	1,773,570	1,606,790
Fee for service contracts	1,050,923	696,778
Government contracts	1,772,139	1,175,303
Pledges, net	2,921,875	5,407,333
Donated rent	-	42,540
Prepaid expenses	618,006	616,362
Other assets	5,388	8,700
Total current assets	32,542,125	38,713,807
Pledges Receivable, Long-term, Net	885,829	1,882,623
Property and Equipment, Net	146,382	184,693
Right-of-Use Assets, Operating Leases	669,725	885,455
Right-of-Use Assets, Finance Leases	59,059	52,813
Deposits	77,664	71,299
Total assets	<u>\$ 34,380,784</u>	<u>\$ 41,790,690</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 439,568	\$ 455,361
Accrued expenses	1,212,826	724,305
Accrued payroll and related liabilities	1,534,227	1,515,189
Deferred revenue, fee for service	46,000	10,000
Deferred revenue	445,891	9,610
Operating lease liability, current	416,195	474,584
Finance lease liability, current	17,796	13,364
Total current liabilities	4,112,503	3,202,413
Operating Lease Obligation, Less Current Portion	277,246	448,480
Finance Lease Obligation, Less Current Portion	42,020	39,449
Total liabilities	<u>4,431,769</u>	<u>3,690,342</u>
Net Assets		
Without donor restrictions	23,562,777	28,405,091
With donor restrictions	6,386,238	9,695,257
Total net assets	<u>29,949,015</u>	<u>38,100,348</u>
Total liabilities and net assets	<u>\$ 34,380,784</u>	<u>\$ 41,790,690</u>

See notes to financial statements

With Summarized Comparative Totals for the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total	2023 Total
Support and Revenue				
Support:				
Foundation grants	\$ 5,247,890	\$ 3,692,106	\$ 8,939,996	\$ 13,106,131
Government contracts and grants	11,760,968	34,040	11,795,008	10,603,921
Individual gifts	2,705,877	166,102	2,871,979	2,822,754
Corporate contributions	1,997,911	60,330	2,058,241	4,567,738
Special event income, net of costs of direct benefit to donors of \$597,139	578,957	352,604	931,561	1,190,057
Contributed nonfinancial assets	666,981	-	666,981	710,465
Total support	22,958,584	4,305,182	27,263,766	33,001,066
Revenue:				
Tutoring service fees	3,294,135	-	3,294,135	3,205,086
Investment income, net	2,681,767	-	2,681,767	1,829,141
Partnership revenue	1,117,797	-	1,117,797	58,800
Other income	8,000	-	8,000	8,000
Total revenue	7,101,699	-	7,101,699	5,101,027
Total support and revenue	30,060,283	4,305,182	34,365,465	38,102,093
Net assets released from restrictions	7,614,201	(7,614,201)	-	-
Total support and revenue	37,674,484	(3,309,019)	34,365,465	38,102,093
Expenses				
Program services	34,572,790	-	34,572,790	29,772,826
Supporting services:				
Management and general				

Reading Partners

Statement of Cash Flows

For the Year Ended June 30, 2024

With Summarized Comparative Totals for the Year Ended June 30, 2023

	2024	2023
Cash Flows From Operating Activities		
Change in net assets	\$ (8,151,333)	\$ 1,748,856
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	70,431	56,520
Amortization of operating and finance lease right of use assets	215,730	594,576
Realized and unrealized gains on investments	(1,924,966)	(1,176,645)
Changes in operating assets and liabilities:		
Receivables	2,407,031	(5,309,516)
Prepaid expenses	(1,644)	(109,932)
Other assets	3,312	197,947
Deposits	(6,365)	(13,197)
Accounts payable	(15,793)	(142,304)
Accrued expenses	488,521	251,376
Accrued payroll and related liabilities	19,038	265,427
Deferred revenue, fee for service	36,000	(64,058)
Deferred revenue	436,281	(53,512)
Lease liabilities	(222,620)	(552,087)
Net cash used in operating activities	<u>(6,646,377)</u>	<u>(4,306,549)</u>
Cash Flows From Investing Activities		
Purchase of investments	(722,830)	(23,768,211)
Proceeds from sale of investments	6,300,000	34,083
Purchase of property and equipment	(32,120)	(55,009)
Net cash provided by (used in) investing activities	<u>5,545,050</u>	<u>(23,789,137)</u>
Cash Flows From Financing Activities		
Principal payments on finance lease liabilities	(6,246)	(6,727)
Net cash used in financing activities	<u>(6,246)</u>	<u>(6,727)</u>
Net decrease in cash and cash equivalents	(1,107,573)	(28,102,413)
Cash and Cash Equivalents, Beginning	4,248,273	32,350,686
Cash and Cash Equivalents, Ending	<u>\$ 3,140,700</u>	<u>\$ 4,248,273</u>
Noncash Financing Activities		
Contributed nonfinancial assets	<u>\$ 666,981</u>	<u>\$ 710,465</u>

See notes to financial statements

Reading Partners

Notes to Financial Statements
June 30, 2024

3. Summary of Significant Accounting Policies

A summary of significant accounting policies is as follows:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with account

Reading Partners

Notes to Financial Statements

June 30, 2024

Grants Receivable

Grants receivable represent unreimbursed expenditures incurred under the terms of the grant agreements. In the opinion of management, grants receivable are collectible in full; therefore, no allowance for doubtful accounts was assessed at June 30, 2024.

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. Management has discounted these promises to give to the anticipated net present value of the future cash flows if there is material change reflected in the rates. For the year ended June 30, 2024, the discount

Reading Partners

Notes to Financial Statements

June 30, 2024

- x When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.

Reading Partners

Notes to Financial Statements

June 30, 2024

Contributed Nonfinancial Assets

Facilities

The Organization receives donated dedicated space in schools where it provides its core program (see Note 11).

The fair value of the donated space is determined by the school based on square footage of the dedicated space and the appropriate market value of rent for the space. The fair value is estimated using information provided to the Organization by the school. In addition, the Organization receives donated office space, which is recorded at fair value using information provided to the Organization by the donor.

Services

Contributed services, which require specialized skills and which the Organization would have paid for if not donated, are recorded at their fair value by using hourly billing rates 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.

Materials

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

Contracts with Customers

Revenue recognition for contracts with customers is evaluated through the following five steps: (i) identification of the contract or contracts with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

Tutoring Service Fees

Tutoring service fees revenue consists of contracts that the Organization enters into with various schools to operate a tutoring program for students. The Organization's performance obligation generally consists of the promise to provide a service of tutoring. Revenue for tutoring services is recognized over time as the services are completed.

Revenue is based on the consideration specified in the contract for the exchange of services. Payment terms are typically 30 days. There are no variable considerations.

Partnerships

The Organization generates partnership revenue from providing curriculum, program resources, and coaching to allow customers to operate a program that provides reading support to qualifying students utilizing a Reading Partners approved program model which may include use of a proprietary, evidence-based curriculum and individualized tutoring.

The Organization recognizes revenue related to its services in accordance with the satisfaction of the underlying pers of g

Reading Partners

Notes to Financial Statements

Reading Partners

Notes to Financial Statements

June 30, 2024

4. Newly Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Measurement of Financial Instruments—Credit Losses (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. For financial instruments included in the scope, the CECL methodology

Reading Partners

Notes to Financial Statements
June 30, 2024

6. Liquidity and Availability of Financial Assets

The Organization has sufficient liquidity sources at the date that the financial statements are issued to meet outstanding obligations.

The Organization has a line of credit which is available for use to temporarily funds gaps in cash flows primarily related to cost-reimbursement grants. As of June 30, 2024, the Organization has a \$4,000,000 available under the line of credit. The line of credit matures of April 30, 2026.

Reading Partners

Notes to Financial Statements

June 30, 2024

8. Property and Equipment

The cost and related accumulated depreciation and amortization of property and equipment at June 30, 2024 consisted of the following:

Curriculum	\$	1,212,524
Furniture and equipment		176,465
Equipment		32,416
Website		16,281
Software		116,271
Leasehold improvements		<u>20,358</u>
		1,574,315
Less accumulated depreciation and amortization		<u>(1,427,933)</u>
Total property and equipment, net	\$	<u>146,382</u>

9. Line of Credit

The Organization has a \$4,000,000 line of credit with Union Bank of California that matures on April 30, 2026. The line of credit bears interest at reference rate plus 0.5% per annum (8.5% at June 30, 2024). The line of credit agreement contains financial covenants that require, among other matters, that the Organization maintain a minimum current ratio and total net assets. At June 30, 2024, there was no outstanding balance on the line of credit.

10. Net Assets With Donor Restrictions

The Organization's net assets with donor restrictions as of June 30, 2024 consisted of the following:

Purpose and time restricted	\$	6,359,238
Purpose restricted		<u>27,000</u>
Total net assets with donor restrictions	\$	<u>6,386,238</u>

Reading Partners

Notes to Financial Statements
June 30, 2024

12. Retirement Plan

The Organization sponsors a defined contribution plan for eligible employees under Section 403(b) of the

Reading Partners

Notes to Financial Statements

June 30, 2024

16. Leases

The Organization has various operating and finance leases for office spaces and equipment with lease payments ranging from \$139 to \$9,525 per month.

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Organization's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Organization's sole discretion. The Organization regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Organization includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses the rate implicit in the lease, or if not readily available, the Organization uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842. The Organization does not have any material leasing transactions with related-parties.

The following table summarizes the lease right-of-use assets and lease liabilities as of June 30, 2024:

Right-of-use assets:		
Operating leases	\$	669,725
Finance leases		<u>59,059</u>
Total right-of-use assets	\$	<u><u>728,784</u></u>
Lease liabilities:		
Current operating lease liabilities	\$	416,195
Current finance lease liabilities		17,796
Long-term operating lease liabilities		277,246
Long-term finance lease liabilities		<u>42,020</u>
Total lease liabilities	\$	<u><u>753,257</u></u>

Reading Partners

Notes to Financial Statements

June 30, 2024

The table below summarizes the Organization's scheduled future minimum lease payments for years ending after June 30, 2024:

	<u>Operating Leases</u>	<u>Finance Leases</u>
Year ending June 30:		
2025	\$ 432,517	\$ 19,728
2026	183,769	19,728
2027	82,845	14,206
2028	19,136	6,732
2029	-	3,555
	<u>718,267</u>	<u>63,949</u>
Total lease payments	718,267	63,949
Less present value discount	<u>(24,826)</u>	<u>(4,133)</u>
Total lease liabilities	693,441	59,816
Less current portion	<u>(416,195)</u>	<u>(17,796)</u>
Long-term lease liabilities	<u>\$ 277,246</u>	<u>\$ 42,020</u>

The following table includes supplemental cash flow and noncash information related to the leases for the year ended June 30, 2024:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating leases	\$ 550,565
Finance leases	16,173

The right-of-use assets and lease liabilities were calculated using discount rates that range from 3.04% to 4.61% for finance leases and 2.88% to 4.42% for operating leases. As of June 30, 2024, the weighted average remaining lease term is 3.55 years for finance leases and 1.98 years for operating leases.