

# **READ Alliance, Inc.**

Independent Auditor's Report and Financial Statements

August 31, 2019 and 2018



**READ Alliance, Inc.**  
**August 31, 2019 and 2018**

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## Independent Auditor's Report

Board of Directors  
READ Alliance, Inc.  
New York, New York

We have audited the accompanying financial statements of READ Alliance, Inc., which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 READ Alliance, Inc. as of August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As described in *Note 2* to the financial statements, in 2019, READ Alliance, Inc. adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*BKD, LLP*

New York, New York  
February 3, 2020

**READ Alliance, Inc.**  
**Statements of Financial Position**  
**August 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 196,864	\$ 1,006,841
Certificates of deposit	563,000	-
Government contracts receivable	149,127	39,516
Contributions receivable	90,550	121,396
Contributions receivable - sites	108,750	83,714
Prepaid expenses and other receivables	276,586	88,745
Security deposits	79,410	60,720
Property and equipment - net	111,770	9,653
Total assets	\$ 1,576,057	\$ 1,410,585
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 235,235	\$ 39,684
Deferred rent	24,415	21,258
Total liabilities	259,650	60,942
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	708,657	653,393
Designated by the board	445,000	445,000
Net assets without donor restrictions	1,153,657	1,098,393
With donor restrictions	162,750	251,250
Total net assets	1,316,407	1,349,643
Total liabilities and net assets	\$ 1,576,057	\$ 1,410,585

**READ Alliance, Inc.**  
**Statements of Activities**  
**Years Ended August 31, 2019 and 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and Support</b>						
Foundation and corporate contributions	\$ 1,080,273	\$ 162,750	\$ 1,243,023	\$ 965,487	\$ 251,250	\$ 1,216,737
Contributions from individuals	63,774	-	63,774	107,839	-	107,839
Government contracts	199,727	-	199,727	35,000	-	35,000
Contributions from sites	218,000	-	218,000	212,714	-	212,714
Contributed services	185,624	-	185,624	145,239	-	145,239
Special events revenues	\$ 540,659			\$ 503,093		
Direct costs of special events	(76,696)	-	463,963	(40,802)	-	462,291
Interest income	5,915	-	5,915	8,434	-	8,434
Rental income	32,070	-	32,070	69,755	-	69,755
Other income	9,296	-	9,296	-	-	-
Net assets released from restrictions	251,250	(251,250)	-	215,000	(215,000)	-
<b>Total revenues and support</b>	<u>2,509,892</u>	<u>(88,500)</u>	<u>2,421,392</u>	<u>2,221,759</u>	<u>36,250</u>	<u>2,258,009</u>
<b>Expenses</b>						
Program services						
After-school program	1,555,517	-	1,555,517	1,348,508	-	1,348,508
Summer program	388,697	-	388,697	329,779	-	329,779
<b>Total program services</b>	<u>1,944,214</u>	<u>-</u>	<u>1,944,214</u>	<u>1,678,287</u>	<u>-</u>	<u>1,678,287</u>
Supporting services						
Management and general	230,916	-	230,916	207,942	-	207,942
Fundraising	279,498	-	279,498	265,462	-	265,462
<b>Total supporting services</b>	<u>510,414</u>	<u>-</u>	<u>510,414</u>	<u>473,404</u>	<u>-</u>	<u>473,404</u>
<b>Total expenses</b>	<u>2,454,628</u>	<u>-</u>	<u>2,454,628</u>	<u>2,151,691</u>	<u>-</u>	<u>2,151,691</u>
<b>Change in Net Assets</b>	55,264	(88,500)	(33,236)	70,068	36,250	106,318
<b>Net Assets, Beginning of Year</b>	<u>1,098,393</u>	<u>251,250</u>	<u>1,349,643</u>	<u>1,028,325</u>	<u>215,000</u>	<u>1,243,325</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,153,657</u>	<u>\$ 162,750</u>	<u>\$ 1,316,407</u>	<u>\$ 1,098,393</u>	<u>\$ 251,250</u>	<u>\$ 1,349,643</u>

**READ Alliance, Inc.**  
**Statements of Functional Expenses**  
**Years Ended August 31, 2019 and 2018**

	2019							
	Program Services			Supporting Services				
	After-School Program	Summer Program	Total	Management and General	Fundraising	Direct Costs of Special Events	Total	Total
Salaries	\$ 931,947	\$ 225,380	\$ 1,157,327	\$ 59,706	\$ 131,263	\$ -	\$ 190,969	\$ 1,348,296
Payroll taxes and employee benefits	118,221	33,665	151,886	9,763	21,465	-	31,228	183,114
In-kind personnel costs	131,682	21,248	152,930	-	-	-	-	152,930
Total salaries and related expenses	1,181,850	280,293	1,462,143	69,469	152,728	-	222,197	1,684,340
Occupancy	164,763	39,846	204,609	10,556	23,207	-	33,763	238,372
Supplies and materials	18,505	10,678	29,183	1,129	2,483	-	3,612	32,795
Professional fees (includes contributed services of \$32,694)	64,742	20,698	85,440	138,980	69,352	-	208,332	293,772
Insurance	60,924	14,734	75,658	3,903	8,581	-	12,484	88,142
Telephone	4,966	2,012	6,978	668	1,469	-	2,137	9,115
Travel and entertainment	11,451	4,640	16,091	1,541	3,387	-	4,928	21,019
Tutor transportation	4,218	781	4,999	-	-	-	-	4,999
Printing and postage	9,093	2,408	11,501	921	1,728	-	2,649	14,150
Recruitment, retention and evaluation	6,668	2,067	8,735	509	1,118	-	1,627	10,362
Catering and hall rental	-	-	-	-	-	76,696	76,696	76,696
Depreciation and amortization	10,372	4,203	14,575	1,395	3,068	-	4,463	19,038
Furniture, maintenance and equipment rental	12,894	4,282	17,176	1,158	2,546	-	3,704	20,880
Bad debt	-	-	-	-	525	-	525	525
Miscellaneous	5,071	2,055	7,126	687	9,306	-	9,993	17,119
Total expenses	1,555,517	388,697	1,944,214	230,916	279,498	76,696	587,110	2,531,324
Less expenses deducted directly from revenues								
Direct cost of special events	-	-	-	-	-	(76,696)	(76,696)	(76,696)
Total expenses reported by function on the statements of activities	<u>\$ 1,555,517</u>	<u>\$ 388,697</u>	<u>\$ 1,944,214</u>	<u>\$ 230,916</u>	<u>\$ 279,498</u>	<u>\$ -</u>	<u>\$ 510,414</u>	<u>\$ 2,454,628</u>

**READ Alliance, Inc.**  
**Statements of Functional Expenses (Continued)**  
**Years Ended August 31, 2019 and 2018**

	2018							
	Program Services			Supporting Services				
	After-School Program	Summer Program	Total	Management and General	Fundraising	Direct Costs of Special Events	Total	Total
Salaries	\$ 753,191	\$ 159,847	\$ 913,038	\$ 63,025	\$ 125,845	\$ -	\$ 188,870	\$ 1,101,908
Payroll taxes and employee benefits	93,023	23,510	116,533	9,449	18,867	-	28,316	144,849
In-kind personnel costs	99,357	38,326	137,683	-	-	-	-	137,683
Total salaries and related expenses	945,571	221,683	1,167,254	72,474	144,712	-	217,186	1,384,440
Occupancy	181,022	38,418	219,440	15,147	30,246	-	45,393	264,833
Supplies and materials	23,609	13,675	37,284	883	1,762	-	2,645	39,929
Professional fees (includes contributed services of \$7,556)	91,402	27,264	118,666	108,346	60,107	-	168,453	287,119
Insurance	58,866	12,493	71,359	4,926	9,835	-	14,761	86,120
Telephone	4,821	1,934	6,755	806	1,609	-	2,415	9,170
Travel and entertainment	2,605	1,045	3,650	435	869	-	1,304	4,954
Tutor transportation	1,059	265	1,324	-	-	-	-	1,324
Printing and postage	8,642	1,646	10,288	914	1,552	-	2,466	12,754
Recruitment, retention and evaluation	2,970	837	3,807	105	209	-	314	4,121
Catering and hall rental	-	-	-	-	-	40,802	40,802	40,802
Depreciation and amortization	14,186	5,690	19,876	2,370	4,734	-	7,104	26,980
Furniture, maintenance and equipment rental	12,656	4,388	17,044	1,354	2,704	-	4,058	21,102
Bad debt	-	-	-	-	-	-	-	-
Miscellaneous	1,099	441	1,540	182	7,123	-	7,305	8,845
Total expenses	1,348,508	329,779	1,678,287	207,942	265,462	40,802	514,206	2,192,493
Less expenses deducted directly from revenues								
Direct cost of special events	-	-	-	-	-	(40,802)	(40,802)	(40,802)
Total expenses reported by function on the statements of activities	<u>\$ 1,348,508</u>	<u>\$ 329,779</u>	<u>\$ 1,678,287</u>	<u>\$ 207,942</u>	<u>\$ 265,462</u>	<u>\$ -</u>	<u>\$ 473,404</u>	<u>\$ 2,151,691</u>



**READ Alliance, Inc.**  
**Statements of Cash Flows**  
**Years Ended August 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating Activities</b>		
Change in net assets	\$ (33,236)	\$ 106,318
Items not requiring (providing) operating cash flow		
Depreciation and amortization	19,038	26,980
Changes in		
Government contracts receivable	(109,611)	10,901
Contributions receivable	30,846	(69,676)
Contributions receivable - sites	(25,036)	84,884
Prepaid expenses and other receivables	(187,841)	(14,920)
Security deposits	(18,690)	-
Accounts payable and accrued expenses	195,551	11,098
Deferred rent	3,157	(30,096)
	<u>(125,822)</u>	<u>125,489</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(121,155)	(18,627)
Purchase of certificates of deposit	(563,000)	-
	<u>(684,155)</u>	<u>(18,627)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(809,977)	106,862
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,006,841</u>	<u>899,979</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 196,864</u>	<u>\$ 1,006,841</u>

**READ Alliance, Inc.**  
**Notes to Financial Statements**  
**August 31, 2019 and 2018**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

READ Alliance, Inc. (READ) works to improve the educational trajectory of early elementary students through the power of teen leaders who provide one-to-one tutoring in foundational reading skills. Our unique, dual-impact model of literacy and leadership addresses the achievement gap for our younger students while engaging young people in serving their communities. Since 2000, READ has engaged more than 13,000 high school youth to provide more than 15,000 kindergarten through second grade students with one-to-one reading tutoring in underserved communities throughout the five boroughs of NYC.

Our unique Early Literacy Program provides 90 minutes of programming a day in two parts: 1) a 45-minute session of one-to-one, individualized literacy intervention using a phonics-based curriculum delivered to the younger READ students by paid READ Teen Leaders and 2) a 45-minute group work session led by a READ teacher, either homework help or complementary literacy activities. During the one-to-one tutoring session, students read out loud to their Teen Leaders a book they have already mastered, and then the Teen Leader provides explicit one-to-one reading instruction and practice. At the end of each session, students are given a book from our Lending Library for continued practice at home. More than 85 percent of students in our program improve more than a grade level in reading.

Young people employed by READ's Teen Leadership Program receive leadership development, job readiness, professional skills, and economic empowerment programming. Through their involvement, Teen Leaders are engaged in meaningful after school employment for 90 minutes a day, for a minimum of three days a week, at a nearby elementary school. Teen Leaders are not only trained to deliver the research-based reading curriculum one-on-one to young children, but they are also trained in behavior management and data collection that is crucial to program implementation, reflection and analysis. Teen Leaders have the opportunity to advance to Senior Teen Leader, a position with additional responsibility providing support and guidance for the Teen Leaders, peer to peer development, and supervision. READ works in isolated communities with some of the highest poverty levels in the city, and nearly all of our Teen Leaders are low-income young people of color. Earning minimum wage allows our teens to develop their financial independence, build economic empowerment, contribute to their household income and save for the future. Through READ training, work experience and wraparound supports our Teen Leaders also build social, emotional and job readiness skills that will prepare them for success beyond high school.

READ is supported primarily by contributions.

***Basis of Accounting***

The financial statements are prepared on the accrual basis of accounting.

**READ Alliance, Inc.**  
**Notes to Financial Statements**  
**August 31, 2019 and 2018**

***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.

***Cash and Cash Equivalents***

READ considers all liquid investments with original maturities of three months or less to be cash equivalents. At August 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

***Certificates of Deposit***

Certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

***Government Contracts Receivable and Revenues***

Government contracts are recorded as receivables and revenues to the extent that expenses have been incurred for the purposes specified by the grantors. Interest income is not accrued or recorded on accounts receivable.

***Allowance for Doubtful Accounts***

READ determines whether an allowance for uncollectibles should be provided for government contracts and contributions receivable. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent receipts and historical information. Government contracts and contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. READ has determined that no allowance for doubtful accounts is necessary as of August 31, 2019 and 2018.

***Property and Equipment***

Property and equipment acquisitions over \$1,000 with an estimated useful life of greater than one year are stated at cost, less accumulated depreciation. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

**READ Alliance, Inc.**  
**Notes to Financial Statements**  
**August 31, 2019 and 2018**

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Furniture and computer equipment	2-5 years
Software and database	3 years
Leasehold improvements	5 years

***Long-Lived Asset Impairment***

READ evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended August 31, 2019 and 2018.

***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for a fund for program growth and certain non-budgeted expenditures, upon the approval of the board.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

***Contributions***

Contributions are provided to READ either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on READ overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met

**READ Alliance, Inc.**  
**Notes to Financial Statements**  
**August 31, 2019 and 2018**

Nature of the Gift	Value Recognized
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the risk-adjusted interest rates applicable to the years in which the promises are received.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Gifts having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

***Rental Income***

Rental income consists of short-term sublease space rentals. Revenue is recognized on the first day of each month for monthly rentals and on the date of the event for daily rentals.

***Contributed Services***

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

***Operating Leases***

Long-term lease costs are recorded on the straight-line basis over the term of the lease. Deferred rent is recorded for the difference between the fixed payment and the rent expense.

***Income Taxes***

READ is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, READ is subject to federal income tax on any unrelated business taxable income.

READ files tax returns in the U.S. federal jurisdiction.

**READ Alliance, Inc.**  
**Notes to Financial Statements**  
**August 31, 2019 and 2018**

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on ratio values and other methods.

**Note 2: Change in Accounting Principle**

In 2019, READ, adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

***Statement of Financial Position***

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

***Statement of Activities***

- Expenses are reported by both nature and function in one location.

***Notes to the Financial Statements***

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

**READ Alliance, Inc.**  
**Notes to Financial Statements**  
**August 31, 2019 and 2018**

**Note 3: Contributions Receivable**

Contributions receivable consisted of the following:

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Due within one year	\$ 144,300	\$ 40,000	\$ 184,300
Due within one to five years	-	15,000	15,000
Due in more than five years	-	-	-
	<u>\$ 144,300</u>	<u>\$ 55,000</u>	<u>\$ 199,300</u>

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Due within one year	\$ 92,610	\$ 112,500	\$ 205,110
Due within one to five years	-	-	-
Due in more than five years	-	-	-
	<u>\$ 92,610</u>	<u>\$ 112,500</u>	<u>\$ 205,110</u>

**Note 4: Property and Equipment**

Property and equipment at August 31, 2019 and 2018 consists of:

	<b>2019</b>	<b>2018</b>
Furniture and computer equipment	\$ 49,104	\$ 40,492
Software and database	-	97,400
Leasehold improvements	<u>112,542</u>	<u>-</u>
	161,646	137,892
Less accumulated depreciation and amortization	<u>(49,876)</u>	<u>(128,239)</u>
	<u>\$ 111,770</u>	<u>\$ 9,653</u>

**READ Alliance, Inc.**  
**Notes to Financial Statements**  
**August 31, 2019 and 2018**

**Note 5: Operating Leases**

READ had a noncancelable lease agreement for office space that expired March 31, 2019. Under the terms of the agreement, READ received five months free rent in the first year of the lease. READ entered into a new lease for office space effective March 1, 2019 through February 28, 2029. Under the terms of the agreement, READ receives two months free rent in the first year of the lease.

Rent is being expensed on the straight-line method over the term of the lease. Deferred rent at August 31, 2019 and 2018 was \$24,415 and \$21,258, respectively.

Rent expense for the years ended August 31, 2019 and 2018 was \$211,243 and \$232,203, respectively.

Future minimum lease payments at August 31, 2019 were:

2020	\$	154,200
2021		154,200
2022		154,200
2023		154,200
2024		154,200
Thereafter		<u>693,900</u>
	<u>\$</u>	<u>1,464,900</u>

READ leases two copier/scanner/printers under a lease agreement which expires in March 2024. Future minimum lease payments at August 31, 2019 were:

2020	\$	7,500
2021		7,500
2022		7,500
2023		7,500
2024		<u>4,375</u>
	<u>\$</u>	<u>34,375</u>

Lease expense was \$11,950 and \$13,020 for the years ended August 31, 2019 and 2018, respectively.

**Note 6: Contributions from Sites**

READ receives contributions from many of its program partners, including the schools served. These contributions are used to help defray program costs.



**READ Alliance, Inc.**  
**Notes to Financial Statements**  
**August 31, 2019 and 2018**

**Note 7: Contributed Services**

READ received in-kind assistance from some of its program sites in the form of professional READ teachers. The total value of in-kind services based on the actual costs was \$131,682 and \$99,356 in 2019 and 2018, respectively, for the After-School Program, and \$21,248 and \$38,327 in 2019 and 2018, respectively, for the Summer Program, which have been reflected as revenues and expenses in the accompanying statements of activities.

READ utilized the services of 100 and 51 students as volunteer tutors in 2019 and 2018, respectively. This yielded a total estimated 2,677 and 1,561 volunteer hours in 2019 and 2018, respectively. The value of these services is not recognized in these financial statements, since the services provided do not meet the criteria for recognition under generally accepted accounting principles.

READ also utilizes the services of students through a partnership with two other not-for-profit organizations through contracts with New York City's Summer Youth Employment Program. READ received the service of 72 students, providing approximately 4,052 hours of service at five sites in 2019. READ received the service of 118 students, providing approximately 6,900 hours of service at six sites in 2018. The value of these services is not recognized in these financial statements, since the services provided do not meet the criteria for recognition under generally accepted accounting principles.

For the years ended August 31, 2019 and 2018, READ received contributed legal services of \$32,694 and \$7,556, respectively.

**Note 8: Pension Plan**

READ sponsors a 401(k) retirement plan covering all full-time employees 21 years and older with at least one year of employment. No discretionary contributions were made to the plan by READ for the years ended August 31, 2019 and 2018.

**Note 9: Net Assets**

***Net Assets With Donor Restrictions***

Net assets with donor restrictions at August 31, 2019 and 2018 are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose		
Specific school and summer programs	\$ 162,750	\$ 251,250
	<u>\$ 162,750</u>	<u>\$ 251,250</u>

**READ Alliance, Inc.**  
**Notes to Financial Statements**  
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***Net Assets Without Donor Restrictions***

Net assets without donor restrictions at August 31, 2019 and 2018 have been designated for the following purposes:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 708,657	\$ 653,393
Designated by the board for operating reserve	<u>445,000</u>	<u>445,000</u>
Net assets without donor restrictions	<u>\$ 1,153,657</u>	<u>\$ 1,098,393</u>

***Net Assets Released from Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2019</u>	<u>2018</u>
Satisfaction or purpose restrictions		
Specific school and summer programs	<u>\$ 251,250</u>	<u>\$ 215,000</u>
	<u>\$ 251,250</u>	<u>\$ 215,000</u>

**Note 10: Board-Designated Fund**

In 2016, the board established a \$500,000 board designated fund for program growth and certain non-budgeted expenditures upon the approval of the board. Interest earned on the balance may be used for general operating expenses. During 2017 there were appropriations of \$55,000 made from this fund. There were no appropriations during 2019 or 2018. At August 31, 2019 and 2018, the balance of the fund was \$445,000.

**READ Alliance, Inc.**  
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**Note 11: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of August 31, 2019 and 2018, comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash and cash equivalents	\$ 196,864	\$ 1,006,841
Certificates of deposit	563,000	-
Government contracts receivable	149,127	39,516
Contributions receivable - current	90,550	121,396
Contributions receivable - sites - current	<u>108,750</u>	<u>83,714</u>
Total financial assets	1,108,291	1,251,467
Donor-imposed restrictions		
Restricted funds	<u>(162,750)</u>	<u>(251,250)</u>
Net financial assets after donor-imposed restrictions	945,541	1,000,217
Internal designations		
Board-advised funds	<u>(445,000)</u>	<u>(445,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 500,541</u>	<u>\$ 555,217</u>

READ manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

**Note 12: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

**Contributions**

Approximately 20 percent of READ's revenue and support was derived from its annual special event in 2019 and 2018.

**READ Alliance, Inc.**  
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***Contingencies***

READ is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of READ. Events could occur that would change this estimate materially in the near term. Management also believes it carries adequate insurance to cover any possible judgement or settlement.

READ is a co-defendant in a lawsuit that is expected to settle in 2020 and is covered by insurance. READ has accrued a payable based on its assessment of probable loss in this matter and has recorded an insurance receivable based on its determination that recovery of the loss is probable. Both amounts have been reflected within the August 31, 2019 financial statements within prepaid expenses and other receivables and accounts payable and accrued expenses.

***Regulatory Environment***

READ is subject to audits by funding sources. Management believes that the results of such audits, if any, will not have an adverse effect on the financial statements.

**Note 13: Subsequent Events**

Subsequent events have been evaluated through February 3, 2020, which is the date the financial statements were available to be issued.

**Note 14: Future Changes in Accounting Principles**

***Revenue Recognition***

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018 (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019 (December 15, 2018, for not-for-profits that are conduit debt obligors). READ is in the process of evaluating the effect the amendment will have on the financial statements.

**READ Alliance, Inc.**  
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***Accounting for Grants and Contributions***

FASB amended its standards related to contributions received and contributions made. The amendment clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organization to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standards clarify that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance. The standard will be effective for reporting periods beginning on or after December 15, 2018. READ is in the process of evaluating the effect the amendment will have on the financial statements.

***Accounting for Leases***

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. READ is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.