Report of Independent Auditors and
Financial Statements

Raising A Reader

December 31, 2017
(With comparative totals for the year ended December 31, 2016)

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Report of Independent Auditors

The Board of Directors
Raising A Reader

Report on Financial Statements

We have audited the accompanying financial statements of Raising A Reader (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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. 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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss Adams LLP

San Francisco, California
August 21, 2018

Financial Statements

Raising A Reader
Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
ASSETS		
ASSETS		
Cash and cash equivalents	$ 530,024	$ 488,947
Investments	282,409	276,877
Beneficial interest in assets	423,456	420,519
Contributions and grants receivable, net	1,294,427	847,485
Other receivables	202,383	137,976
Inventory	363,531	429,925
Deposits and prepaid expenses	53,862	86,504
Property and equipment, net of accumulated depreciation and amortization	19,342	76,008
TOTAL ASSETS	$ 3,169,434	$ 2,764,241
LIABILITIES AND NET ASSETS		
LIABILITIES		
Related-party payables	$ 523,436	$ 278,118
Accounts payable	110,969	63,214
Payroll related liabilities	175,189	260,159
TOTAL LIABILITIES	809,594	601,491
NET ASSETS		
Unrestricted	791,220	969,467
Temporarily restricted	1,568,620	1,193,283
TOTAL NET ASSETS	2,359,840	2,162,750
TOTAL LIABILITIES AND NET ASSETS	$ 3,169,434	$ 2,764,241

See accompanying notes.

Raising A Reader
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2017
(with Comparative Totals for the Year Ended December 31, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
REVENUES AND OTHER SUPPORT				
Contributions and grants	$ 211,867	$ 1,488,894	$ 1,700,761	$ 1,662,845
In-kind donations	145,775	-	145,775	251,759
Sales revenue	2,028,397	-	2,028,397	2,145,992
Other income	38,369	-	38,369	53,210
Interest income	9,376	-	9,376	13,455
Net assets released from restrictions	1,113,557	(1,113,557)	-	-
TOTAL REVENUES AND OTHER SUPPORT	3,547,341	375,337	3,922,678	4,127,261
EXPENSES				
Program services	2,442,290	-	2,442,290	3,112,812
General and administrative	845,419	-	845,419	986,298
Development	437,879	-	437,879	420,221
TOTAL EXPENSES	3,725,588	-	3,725,588	4,519,331
CHANGE IN NET ASSETS	(178,247)	375,337	197,090	(392,070)
NET ASSETS, beginning of year	969,467	1,193,283	2,162,750	2,554,820
NET ASSETS, end of year	$ 791,220	$ 1,568,620	$ 2,359,840	$ 2,162,750

See accompanying notes.

Raising A Reader
Statements of Functional Expenses

Years Ended December 31, 2017 and 2016

	December 31, 2017			
	Program Services	General and Administrative	Development	Total
Salaries and benefits	$ 1,034,694	$ 612,034	$ 305,732	$ 1,952,460
Grants awarded	207,229	-	-	207,229
Cost of goods sold	772,950	-	-	772,950
Sales and use tax	15,503	24	179	15,706
Program training and incentives	14,013	-	-	14,013
Professional services	82,259	123,725	21,085	227,069
Occupancy	155,589	57,995	22,292	235,876
General office	100,096	20,851	46,237	167,184
Equipment, maintenance, and repair	5,237	1,144	445	6,826
Depreciation and amortization	18,396	2,856	1,111	22,363
Insurance	220	20,854	49	21,123
Travel and meetings	31,261	5,081	11,485	47,827
Outreach and marketing	3,828	855	29,264	33,946
Donated program materials	1,015	-	-	1,015
Total expenses	$ 2,442,290	$ 845,419	$ 437,879	$ 3,725,588

	December 31, 2016			
	Program Services	General and Administrative	Development	Total
Salaries and benefits	$ 1,351,205	$ 807,820	$ 241,323	$ 2,400,348
Grants awarded	319,856	-	-	319,856
Cost of goods sold	793,947	-	-	793,947
Sales and use tax	18,683	9	40	18,732
Subcontracts	54,928	16,157	79,706	150,791
Program training and incentives	47,165	7	1	47,173
Professional services	185,178	64,040	9,266	258,484
Occupancy	161,215	53,997	18,052	233,264
General office	114,020	20,814	46,213	181,047
Equipment, maintenance, and repair	13,950	4,844	1,783	20,577
Depreciation and amortization	5,836	2,918	933	9,687
Insurance	-	6,346	-	6,346
Travel and meetings	41,663	9,122	7,946	58,731
Outreach and marketing	5,079	224	14,958	20,261
Donated program materials	87	-	-	87
Total expenses	$ 3,112,812	$ 986,298	$ 420,221	$ 4,519,331

 See accompanying notes.

Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 197,090	$ (392,070)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Loss on disposal of property and equipment	35,210	-
Depreciation and amortization	22,363	9,687
Investment income reinvested	(9,376)	(13,455)
(Increase) decrease in assets:		
Contributions and grants receivable, net	(446,942)	(489,357)
Other receivables	(64,407)	114,085
Inventory	66,394	(23,655)
Deposits and prepaid expenses	32,642	(22,297)
Increase (decrease) in liabilities:		
Related-party payables	245,318	54,437
Accounts payable	47,755	(108,070)
Payroll related liabilities	(84,970)	56,178
Net cash from (used in) operating activities	41,077	(814,517)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	-	652,323
Purchase of investments	-	(250,000)
Net cash from investing activities	-	402,323
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,077	(412,194)
CASH AND CASH EQUIVALENTS, beginning of year	488,947	901,141
CASH AND CASH EQUIVALENTS, end of year	$ 530,024	$ 488,947

See accompanying notes.

NOTE 1 – ORGANIZATION

Raising A Reader (the "Organization") is a national nonprofit family engagement and literacy program that helps families develop, practice, and maintain home literacy habits essential for school success. The Organization is operated through a diverse national network of affiliates (e.g., school systems, libraries, or community agencies) at more than 2,700 locations nationally, serving families with children between the ages of 0 to 8 years old. Each week, children participating in the program bring home a sturdy red bag filled with high-quality, developmentally-appropriate, multicultural children's books. Over the course of the program year, the children are exposed to a wide range of titles, providing them with both a mirror reflecting their own world and a window to the world beyond. Through initial training and ongoing support, Raising A Reader parents, even those with limited English proficiency or low literacy skills, learn how to engage their children in storytelling with picture books. The program also includes an introduction to the public library, setting up families for a lifetime of book enjoyment. More than 30 independent evaluations confirm the valuable impact of the Organization on family engagement and early literacy skills.

The Organization was incorporated in the state of California in 2000 and has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Additionally, Raising A Reader is a Supporting Organization, Internal Revenue Code (the "Code") 509 (a)(3), of Silicon Valley Community Foundation (the "Community Foundation"). Though the organizations operate as distinct legal entities, the Organization's finances are consolidated annually with the Community Foundation.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of estimates – Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingencies at the date of the statement of financial position and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's estimates. Significant estimates include fair value of investments, beneficial interest in assets, and the allocation of functional expenses.

Cash and cash equivalents – All highly liquid investments, with an original maturity of three months or less when purchased, are considered to be cash equivalents.

Classes of net assets – The accompanying financial statements present net assets based on the presence or absence of donor restrictions as follows:

Unrestricted net assets – Unrestricted net assets include resources for which there are no donor restrictions. Such amounts are available to support the Organization's general operations and programs.

Temporarily restricted net assets – Temporarily restricted net assets include resources with donor-imposed restrictions that will be fulfilled by actions of the Organization and/or become unrestricted by the passage of time. When the donor or time restriction is fulfilled, temporarily restricted net assets are released to unrestricted net assets and are reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets – Permanently restricted net assets are resources that are required to be held in perpetuity for the long-term benefit of the organization. The Organization does not currently have any permanently restricted net assets.

Investments – Investments are reported at fair value and include certificate of deposit accounts which have maturity dates of more than three months.

Fair value of beneficial interest in assets – The Organization's beneficial interest in assets represents its investment in a diversified investment pool offered by the Community Foundation. The pool consists of money markets and certificates of deposit. The Community Foundation has the Organization's investment account under its management. The Organization's share of the pool is recorded at fair value, based on the net asset value of the pooled assets and the Organization's ownership interest in the pool. Fair value of the pool is determined by the Community Foundation and based on information provided by fund managers, external investment advisors, and other market factors. Net asset values are evaluated by the Organization to determine if the values of these investments should be adjusted. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Valuations are reviewed at least annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies.

Inventory – A cornerstone of the Raising A Reader program are the high-quality books that have been selected for participants as well as the red bags used to circulate the books among the children and households. The Organization sells or grants these items to affiliates who are implementing the program. The Organization purchases most books and materials as needed to fulfill affiliate orders; however, a small amount of inventory is maintained in a warehouse to manage short-term demand. Inventory in stock is valued on the basis of weighted-average cost of items on hand.

Property and equipment – Property and equipment are stated at cost or, if donated, at the estimated fair value at the date of donation. Assets with a value of $5,000 or more, and with a useful life of more than one year, are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Computer hardware and software	3 years
Office furnishings and equipment	7 years
Leasehold improvements	Term of lease

Revenue recognition – Grants from corporations or private foundations and contributions are recognized in full when received or unconditionally promised. Contributions and grants receivable that are expected to be collected in more than one year are recorded at fair value based on discounted cash flows. The discount on these amounts is computed using the rate applicable in the year the promises were received. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the original contributions. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporary or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities and changes in net assets as net assets released from restrictions, when time restrictions expire or the contributions are used for the restricted purpose. Sales revenue from the sale of the Organization program books and materials is recognized upon completion of the sales transaction, after the goods are shipped or otherwise released to the intended recipient.

In-kind donations – The Organization recognizes the value of donated equipment and/or supplies at the fair value for similar items. Donated services are recognized at fair value if the services meet the recognition criteria prescribed by generally accepted accounting principles, which include a) requiring specialized skills, b) being provided by someone with those skills, and c) having to be purchased if they were not donated. The Organization receives contributed office space, as well as pro-bono legal services. The value of these in-kind donations are reflected in the accompanying financial statements.

Allowance for doubtful accounts – The Organization provides for amounts that may be uncollectible on pledged contributions, grants, and other receivables. After considering such factors as the ability of the debtor to pay and historical relationships with the debtor, management concluded that no allowance was deemed necessary at December 31, 2017 or 2016.

Functional allocation of expenses – The costs of providing program services have been summarized on a functional basis in the statement of activities and changes in net assets. When appropriate, costs are allocated on a direct cost basis to the various programs or supporting services. In some cases, expenses are incurred, that support the work performed under more than one function. Such expenses are allocated across the functions based on actual usage.

Grants awarded – The Organization uses donated funds to grant the Raising A Reader program to thousands of children and families each year. Grants include books and materials, as well as financial support to offset the affiliates' cost of implementing the program.

Income taxes – The Organization has been granted tax-exempt status under Section 501(c)(3) of the Code and Section 23701d of the California Revenue and Taxation Code, and as such no provision for income tax has been made. The Organization does not have any material uncertain tax positions or unrelated business income. The Organization files exempt organization returns and, if applicable, unrelated business income tax returns in the U.S. federal and California jurisdictions.

Concentrations of risk – Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash. The Organization's cash has been placed with a major financial institution. At times, such amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Organization closely monitors these balances and has not experienced credit losses.

For the year ended December 31, 2017, the Organization received 60% of its contributions and grants from one grantor. At December 31, 2017, 83% of contributions and grants receivable were due from one grantor and 76% of other receivables were due from seven affiliates. For the year ended December 31, 2016, the Organization received 46% of its contributions and grants from two grantors. At December 31, 2016, 83% of contributions and grants receivable were due from five grantors and 71% of other receivables were due from six affiliates.

Recent accounting pronouncements – In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update removes the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows as well as added several additional enhanced disclosures to the notes. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods beginning after December 15, 2018, with application to interim financial statements permitted but not required in the initial year of application. Adoption is effective for the Organization for the calendar year ending December 31, 2018. Management is currently evaluating the impact of the provisions of ASU 2016-14 on the financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Organization recognizes the effects of subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

The Organization has evaluated subsequent events through August 21, 2018, which is the date the financial statements were available to be issued.

NOTE 3 – CONTRIBUTIONS AND GRANTS RECEIVABLE

The Organization expects to receive contributions and grants receivable as follows:

Year Ending December 31,		
2018	$	506,289
2019		343,858
2020		239,822
2021		234,889
		1,324,858
Less: Discount from multi-year contributions and grants receivable		30,431
Net contributions and grants receivable	$	1,294,427

NOTE 4 – FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The Organization determines fair value based on the fair value hierarchy established under applicable accounting guidance, which requires an entity to prioritize the use of observable market-based inputs over the use of unobservable inputs when measuring fair value. There are three levels of inputs used to measure fair value. Financial instruments are considered Level 1 when the valuation is based on quoted market prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable, and when determination of the fair value requires significant management judgment or estimation.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments as of December 31, 2017 and 2016, consist of certificates of deposit, which are classified as Level 2 pursuant to the valuation hierarchy and are valued using maturity and interest rate as observable inputs.

The beneficial interest in assets is classified as Level 2 pursuant to the valuation hierarchy. Valuation is determined based on the net asset value of the pooled assets and the Organization’s ownership interest in the pool. Management reviews detailed information about the pool on a quarterly basis and evaluates its proportional share to substantiate the valuation. The Organization estimates the fair value of investments within its scope using the net asset value (or its equivalent) per share of the investments as of the Community Foundation’s measurement dates. The Organization’s policy is to recognize transfers in and transfers out at the beginning of the period in which the event or change in circumstances occurred.

While the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Computer hardware and software	$ 490,098	$ 467,228
Office furniture and equipment	36,817	36,817
Leasehold improvements	22,136	22,136
	549,051	526,181
Less: accumulated depreciation and amortization	(529,709)	(507,349)
	19,342	18,832
Construction-in-progress	-	57,176
Total property and equipment, net of accumulated depreciation and amortization	$ 19,342	$ 76,008

NOTE 6 – RELATED-PARTY TRANSACTIONS

The Organization is a supporting organization of the Community Foundation and all the Organization personnel are employees of the Community Foundation. Additionally, the Organization receives donations from the Community Foundation and makes grants to it as an affiliate that conducts the Raising A Reader programs in San Mateo County. In 2017 and 2016, the Organization received $250,500 and $105,770, respectively, in donations from the Community Foundation. At December 31, 2017 and 2016, receivables from the Community Foundation were $0 and $50,000, respectively. The Organization awarded grants to the Community Foundation in the amounts of $3,202 and $8,326 in 2017 and 2016, respectively. At December 31, 2017, a payable in the amount of $523,436 was due to the Community Foundation to reimburse for payroll related and other expenses directly related to the work of the Organization. At December 31, 2016, the payable amount due to the Community Foundation was $278,118.

A director on the Board of the Organization is a key member of the Masonic Grand Lodge of California, an organization that has been a major partner with the Organization since 2011. During 2017 and 2016, the Masonic Grand Lodge of California donated $1,027,030 and $488,538, respectively, to the Organization, enabling the Organization's program to reach approximately 6,250 children over the next four years, in addition to the 11,000 children already reached in California schools. Another member of the Organization's Board of Directors has been a significant donor to the Organization for many years. This director donated $50,000 in 2016 to support the Organization's work.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31:

	2017	2016
Program use	$ 1,568,620	$ 1,193,283

NOTE 8 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions by the incurrence of expenses satisfying the restricted purposes specified by the donors or by the passage of time during the years ended December 31, 2017 and 2016, amounted to:

	2017	2016
Program use	$ 1,113,557	$ 847,685

NOTE 9 – OTHER INCOME

Other income is comprised of the following for the years ended December 31:

	2017	2016
Training and program consulting fees	$ 35,314	$ 46,130
Checking account interest and rebates	3,055	7,080
Total other income	$ 38,369	$ 53,210

NOTE 10 – COMMITMENTS

The Organization leases office and warehouse space under separate operating leases, including three month-to-month leases. Due to the generosity of the Sobrato Family Foundation, which owns and operates the leased space in California, the Organization's rent expense has been waived during the term of the leases, provided the Organization maintains its 501(c)(3) status. This waived rent is recorded as in-kind donations in the year received and totaled $116,364 in both 2017 and 2016. The Organization is responsible for the annual operating expenses associated with the leased space. These amounts, which totaled $35,063 and $31,572 in 2017 and 2016, respectively, are included in occupancy expense in the statements of functional expenses.

In 2015, the Organization's Baltimore office entered into a new multi-year lease. This lease, which terminates in 2020, requires future payments as follows:

Year Ending December 31,	
2018	$ 42,592
2019	43,870
2020	29,826
	$ 116,288

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