

**RAR-MA, INC.**  
***dba* RAISING A READER MA**

**FINANCIAL STATEMENTS**

***with***

**INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED JUNE 30, 2016 AND 2015**

Smith  Sullivan  
& Brown PC  
CERTIFIED PUBLIC ACCOUNTANTS

80 Flanders Road, Suite 200  Westborough, Massachusetts 01581  
Tel: 508.871.7178 Fax: 508.871.7179 [www.ssbcpa.com](http://www.ssbcpa.com)

**RAR-MA, INC.**  
***dba* RAISING A READER MA**

**REPORT ON FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**



***Mission Statement***

Raising A Reader MA is an evidence-based early literacy organization that helps families of young children (birth through age six) develop, practice, and maintain habits of reading together at home. Our core program model, which both increases access to books and offers support for strengthening the culture of reading at home, is driven by more than 25 years of research that shows the most significant factor impacting a child's academic success is being regularly read to by a parent or other primary adult caregiver before starting kindergarten.

Our goal is to end the cycle of low literacy by helping families across Massachusetts develop high impact home reading routines that lay the groundwork for a lifetime of learning, success, and productive, responsible citizenship.

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**YEARS ENDED JUNE 30, 2016 AND 2015**



Raising A Reader MA serves Boston and 10 Gateway Communities in Massachusetts including: Brockton, Chelsea, Everett, Holyoke, Lawrence, Lowell, Lynn, Malden, Revere, and Springfield.

Our indirect service partners, implementing Raising A Reader through a train-the-trainer model, target high-need children in an additional 24 communities.

Raising A Reader MA currently has more than 48,000 books in circulation through the homes of over 12,000 children and families across the Commonwealth. Our strategic growth plan focuses our expansion on additional Gateway cities including Attleboro and Taunton.

Raising A Reader received a Social Capitalist award from FAST COMPANY and the top non-profit award from Philanthropedia.

RAR-MA, Inc. was honored by the City of Chelsea and Boston University.

Celebrating 10 years in Massachusetts in 2016, RAR-MA, Inc. was recognized as one of five evidence-based early literacy programs eligible to receive Race To The Top money through its partners in Massachusetts.

Raising A Reader National was awarded, by the U.S. Department of Education, the Innovative Approaches to Literacy Grant. As an Outstanding Affiliate, RAR-MA, Inc. has received a portion of these funds for Massachusetts expansion and been recognized for Program Excellence by Raising a Reader National.

RAR-MA, INC.  
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REPORT ON FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
RAR-MA, Inc.  
*dba* Raising A Reader MA  
Boston, Massachusetts

We have audited the accompanying financial statements of RAR-MA, Inc., *dba* Raising A Reader MA (a Massachusetts nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

**Auditors' 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 of 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 RAR-MA, Inc., *dba* Raising A Reader MA, as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
RAR-MA, Inc.  
*dba* Raising A Reader MA

**Other Matter**

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The nonaccounting information shown on pages three and four, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The nonaccounting information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

*Smith, Sullivan & Brown, PC*

Westborough, Massachusetts  
October 26, 2016

RAR-MA, INC.  
*dba* RAISING A READER MA

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2016

Raising A Reader MA celebrated our 10<sup>th</sup> anniversary in FY 2016 at our annual Gala dinner with an author. It was a year of transition, from a founding Executive Director to a new Executive Director. Our priority during this transition year was fourfold:

- To diversify fundraising and develop income generating activities that will provide sustainable support
- To nurture and sustain existing programming and partnerships
- To develop a programming plan that would increase parent workshop retention
- To expand ongoing open, collaborative communication with RAR National (we are a standalone affiliate of RAR, based in California, licensing its name and brand, and purchasing our books and supplies from RAR)

**RAR Accomplishments:** The RAR-MA team coalesced behind these goals as follows:

**Personnel Strategy:**

- Hired a new Executive Director with significant fundraising, publishing and entrepreneurial experience
- Reorganized staff to align program efficiencies
- Implemented more regular all-staff meetings to encourage open communication, collaboration and community outreach
- Continued support from our Board of Directors including participation on Committees
- Regular, open conversations and meetings with RAR national continues to improve the collaboration between the two entities
- Pared programming that was not cost-effective to increase programming to high-demand regions

**Fundraising:**

- Fundraising efforts expanded to include corporate sponsorships
- Increased number of foundation applications
- Building bank support through community outreach
- Exploration of Fee for Service opportunities

**Programs-Efficacy and Innovation:**

- An Innovations sub-committee, with Board participation, analyzed a number of income generating possibilities, including:
  - expansion of fee-for-service programming to daycare chains and
  - digitization of our curriculum in partnership with WGBH. (Testing via text messaging to parents proved a very positive response to receiving additional tips and techniques, via links to videos that would show parents how to practice dialogic reading with their children). Both income generating possibilities are being pursued in FY 2017. A small grant has allowed for this first digitization project
- Four proposals are in the hands of daycares and United Ways, to explore fee-for-service expansion

**Expenses:**

- Mitigated the losses with the current staff restructuring
- Reduced overall variable expenses

RAR-MA, INC.  
*dba* RAISING A READER MA

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2016

**Looking Ahead FY 2017 and Beyond:**

The budget for FY 2017 has eliminated a deficit, thanks to thoughtful paring of lower-functioning programing and re-alignment of tasks under a slightly reduced staff. We have managed to cut our budgeted expenditures by almost 13% for FY 2017, without compromising the quality of our program and adding Holyoke as a new community. We are looking forward to creating a new strategic plan in the coming year that will incorporate our stage of growth and capture our more diversified funding base, strategic partnerships and statewide expansion. Management is working hard to resolve the deficit including a new development and marketing plan with the help of a Major Gifts Consultant, a result of a coveted grant from the Highland Street Foundation, to build our Individual and Corporate donor base and identify new strategic fundraising opportunities including parlor parties, honoring community leaders in early literacy, increased corporate sponsorship, and building on the success of our Dinner with an Author Gala. In addition, management has identified several new potential partnerships as part of our strategic planning efforts to build our fee for service.

Raising A Reader MA has been fortunate in that we had built up a strong reserve, we have not taken on debt, and we were able to use this reserve to fund operations. In the past few years, we have relied on this reserve and we have a new plan in place to build our reserve for the future.

RAR-MA is at a pivotal point in its growth, moving from start-up mode into a period of growth potential. With 140,000 low-income families in Massachusetts sending children to school each year unprepared to learn to read, we have the opportunity to expand our services – we are currently serving just under 12,000 children a year. We have established staff, offices and programs in 11 of the 26 “gateway cities” (as designated under Mayor Menino), and our short-term goal is to saturate the communities where we exist, before expanding to additional communities. Income generating projects should begin to supplement our bottom line by the end of FY 2017, providing a growing cushion for future expansion.

RAR-MA, INC.  
*dba* RAISING A READER MA

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS:</u></b>		
Cash	\$ 458,488	\$ 315,430
Accounts Receivable, Program Services	16,885	22,666
Grants Receivable	101,715	203,360
Prepaid Expenses	4,947	8,612
Total Current Assets	<u>582,035</u>	<u>550,068</u>
<b><u>OTHER ASSETS:</u></b>		
Board Designated Operating Reserve Fund	-	320,510
Grants Receivable, Non-Current	73,334	-
Security Deposit	2,734	2,734
Total Other Assets	<u>76,068</u>	<u>323,244</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 658,103</u></b>	<b><u>\$ 873,312</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b><u>CURRENT LIABILITIES:</u></b>		
Accounts Payable and Accrued Expenses	\$ 65,792	\$ 42,927
Accrued Salaries, Vacation and Related Costs	14,069	11,715
Deferred Revenue	420	-
Total Current Liabilities	<u>80,281</u>	<u>54,642</u>
<b><u>NET ASSETS:</u></b>		
Undesignated Net Assets	22,566	95,284
Board Designated Net Assets	-	320,510
Total Unrestricted Net Assets	<u>22,566</u>	<u>415,794</u>
Temporarily Restricted Net Assets	555,256	402,876
Total Net Assets	<u>577,822</u>	<u>818,670</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$ 658,103</u></b>	<b><u>\$ 873,312</u></b>

RAR-MA, INC.  
*dba* RAISING A READER MA

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>			<u>2015</u>		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b><u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u></b>						
<i>Support and Revenues:</i>						
Gifts, Grants and Contributions	\$ 63,286	\$ 706,832	\$ 770,118	\$ 137,708	\$ 526,950	\$ 664,658
Program Revenue	102,894	-	102,894	157,450	-	157,450
In-Kind Goods and Services	78,654	-	78,654	25,200	27,660	52,860
Special Fundraising Event, Net of Direct Costs	188,936	-	188,936	273,516	-	273,516
Total Support and Revenues	<u>433,770</u>	<u>706,832</u>	<u>1,140,602</u>	<u>593,874</u>	<u>554,610</u>	<u>1,148,484</u>
<i>Investment and Other Income:</i>						
Investment Return, Net	1,193	-	1,193	1,742	-	1,742
Other Income	-	-	-	1,705	-	1,705
Total Investment and Other Income	<u>1,193</u>	<u>-</u>	<u>1,193</u>	<u>3,447</u>	<u>-</u>	<u>3,447</u>
<i>Reclassification of Net Assets:</i>						
Net Assets Released from Restriction	<u>554,452</u>	<u>(554,452)</u>	<u>-</u>	<u>357,935</u>	<u>(357,935)</u>	<u>-</u>
<b><u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u></b>	<b><u>989,415</u></b>	<b><u>152,380</u></b>	<b><u>1,141,795</u></b>	<b><u>955,256</u></b>	<b><u>196,675</u></b>	<b><u>1,151,931</u></b>
<b><u>FUNCTIONAL EXPENSES:</u></b>						
Program Services	1,004,519	-	1,004,519	904,031	-	904,031
Administrative	169,971	-	169,971	187,378	-	187,378
Fund Raising	208,153	-	208,153	179,622	-	179,622
<b><u>TOTAL FUNCTIONAL EXPENSES</u></b>	<b><u>1,382,643</u></b>	<b><u>-</u></b>	<b><u>1,382,643</u></b>	<b><u>1,271,031</u></b>	<b><u>-</u></b>	<b><u>1,271,031</u></b>
<b><u>CHANGE IN NET ASSETS</u></b>	<b>(393,228)</b>	<b>152,380</b>	<b>(240,848)</b>	<b>(315,775)</b>	<b>196,675</b>	<b>(119,100)</b>
<b><u>NET ASSETS - BEGINNING OF YEAR</u></b>	<b><u>415,794</u></b>	<b><u>402,876</u></b>	<b><u>818,670</u></b>	<b><u>731,569</u></b>	<b><u>206,201</u></b>	<b><u>937,770</u></b>
<b><u>NET ASSETS - END OF YEAR</u></b>	<b><u>\$ 22,566</u></b>	<b><u>\$ 555,256</u></b>	<b><u>\$ 577,822</u></b>	<b><u>\$ 415,794</u></b>	<b><u>\$ 402,876</u></b>	<b><u>\$ 818,670</u></b>

RAR-MA, INC.  
dba RAISING A READER MA

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2016  
*(With Summarized Comparative Totals for 2015)*

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL EXPENSES</u>	
				<u>2016</u>	<u>2015</u>
Salaries	\$ 635,437	\$ 93,671	\$ 134,966	\$ 864,074	\$ 762,607
Payroll Taxes	50,063	5,788	10,668	66,519	62,327
Employee Benefits	53,441	5,164	9,638	68,243	66,141
Professional Fees and Consultants	29,195	35,714	36,739	101,648	83,737
Program Supplies and Activities	174,797	-	-	174,797	175,080
Event Costs	-	-	414	414	1,229
Food and Meals	1,124	705	706	2,535	3,021
Telephone	2,045	10,954	2,125	15,124	13,061
Rent and Utilities	35,034	4,304	5,960	45,298	45,919
Marketing and Promotion	-	67	543	610	1,431
General and Liability Insurance	-	4,904	-	4,904	4,407
Workers' Compensation Insurance	445	66	94	605	904
Printing and Postage	3,855	4,651	1,709	10,215	8,487
Staff Recruitment, Development and Training	1,540	270	305	2,115	22,088
Dues and Subscriptions	-	108	39	147	247
Staff Travel and Mileage	13,456	620	3,643	17,719	16,664
Repairs and Maintenance	-	485	-	485	340
Office Supplies	2,712	83	340	3,135	2,840
Depreciation Expense	-	-	-	-	232
Miscellaneous Expense	-	1,917	264	2,181	204
Bad Debt Expense	1,375	500	-	1,875	65
<b>Total Functional Expenses</b>	<b><u>\$ 1,004,519</u></b>	<b><u>\$ 169,971</u></b>	<b><u>\$ 208,153</u></b>	<b><u>\$ 1,382,643</u></b>	<b><u>\$ 1,271,031</u></b>

RAR-MA, INC.  
*dba* RAISING A READER MA

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
Salaries	\$ 569,589	\$ 79,120	\$ 113,898	\$ 762,607
Payroll Taxes	40,062	14,963	7,302	62,327
Employee Benefits	53,966	2,655	9,520	66,141
Professional Fees and Consultants	4,112	44,050	35,575	83,737
Program Supplies and Activities	175,080	-	-	175,080
Event Costs	-	-	1,229	1,229
Food and Meals	1,356	1,368	297	3,021
Telephone	3,684	8,897	480	13,061
Rent and Utilities	35,290	4,457	6,172	45,919
Marketing and Promotion	15	41	1,375	1,431
General and Liability Insurance	-	4,407	-	4,407
Workers' Compensation Insurance	734	25	145	904
Printing and Postage	2,533	4,782	1,172	8,487
Staff Recruitment, Development and Training	1,132	20,787	169	22,088
Dues and Subscriptions	-	39	208	247
Staff Travel and Mileage	13,782	876	2,006	16,664
Repairs and Maintenance	-	340	-	340
Office Supplies	2,631	135	74	2,840
Depreciation Expense	-	232	-	232
Miscellaneous Expense	-	204	-	204
Bad Debt Expense	65	-	-	65
<b>Total Functional Expenses</b>	<b><u>\$ 904,031</u></b>	<b><u>\$ 187,378</u></b>	<b><u>\$ 179,622</u></b>	<b><u>\$ 1,271,031</u></b>

RAR-MA, INC.  
*dba* RAISING A READER MA

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Change in Net Assets	\$ (240,848)	\$ (119,100)
<i>Adjustments to Reconcile the Above to Net Cash Used by Operating Activities:</i>		
Depreciation Expense	-	232
<i>(Increase) Decrease in Current Assets:</i>		
Accounts Receivable, Program Services	5,781	12,531
Grants Receivable	101,645	(22,681)
Prepaid Expenses	3,665	4,338
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	22,865	13,128
Accrued Salaries, Vacation and Related Costs	2,354	624
Deferred Revenue	420	-
<i>(Increase) Decrease in Other Assets:</i>		
Grants Receivable, Non-Current	(73,334)	10,000
Security Deposit	-	(334)
Net Adjustment	<u>63,396</u>	<u>17,838</u>
<b><u>NET CASH USED BY OPERATING ACTIVITIES</u></b>	<b><u>(177,452)</u></b>	<b><u>(101,262)</u></b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Transfer of Cash from Board Designated Operating Reserve Fund	<u>320,510</u>	<u>128,265</u>
Net Cash Flows From Investing Activities	<u>320,510</u>	<u>128,265</u>
<b><u>NET INCREASE IN CASH BALANCES</u></b>	<b>143,058</b>	<b>27,003</b>
<b><u>CASH BALANCES - BEGINNING OF YEAR</u></b>	<b><u>315,430</u></b>	<b><u>288,427</u></b>
<b><u>CASH BALANCES - END OF YEAR</u></b>	<b><u>\$ 458,488</u></b>	<b><u>\$ 315,430</u></b>

RAR-MA, INC.  
*dba* RAISING A READER MA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 1    ORGANIZATION

RAR-MA, Inc., *dba* Raising A Reader MA, (“RAR-MA” or the “Organization”), was incorporated in 2009 under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The Organization has been classified as an organization which is not a private foundation under Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes.

RAR-MA came to Massachusetts in the Spring of 2006 through the generous support of the GreenLight Fund, an organization that identifies groundbreaking, innovative, and results-oriented nonprofits in cities around the country and replicates those programs in Massachusetts.

**Affiliate:**

RAR-MA is an affiliate of the Raising A Reader national network (“RAR National”). This network affiliation allows RAR-MA the opportunity to leverage resources such as training, research, tools and program materials, including trademark licensing, while upholding a five-part standard of excellence commitment. As part of this affiliation, RAR-MA is obligated to purchase its program materials (books, book bags, and staff training materials) from RAR National.

NOTE 2    PROGRAM SERVICES

**RAR-MA’s Core Program Model:**

RAR-MA is an evidence-based early literacy program dedicated to preventing the academic achievement gap by helping families of young children develop, practice and maintain home-based literacy routines critical for school success. Our work, which both increases access to books and offers families resources and support for strengthening the culture of reading at home, is driven by more than 25 years of research that correlates high rates of family book sharing during a child’s early years (birth through age six) with kindergarten readiness.

RAR-MA does this by delivering the following services to children and families:

1. Increasing access to books at home through our **signature Red Bag book rotation program**
2. Offering multilingual **workshops, trainings, and an instructional DVD** to help parents use these books to strengthen the culture of reading at home
3. **Partnering with early educators** and other family support workers to encourage families to read with their children at home

RAR-MA is a collaborative program – we work with centers of early education and care including Head Start, public pre-schools, home visiting programs, parent-child playgroups, adult education programs, and family child care providers.

RAR-MA, INC.  
*dba* RAISING A READER MA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

*(Continued)*

NOTE 2     *(Continued)*

**Efficacy: Measuring our Impact:**

Decades of research have shown that **when parents read regularly with their children, children's pre-literacy skills improve**. In order to track this important behavior change, RAR-MA employs parent pre- and post- surveys as well as focus groups and interviews to assess both the quantity and quality of their shared reading behaviors.

Annual program evaluation data shows that participating families, particularly those with the fewest reading routines, increase their reading frequency. In FY 2016, 81% of those who were not reading at least three times per week at baseline had increased the frequency of their shared reading interactions by the end of the program year.

**Management Information System:**

RAR-MA continues to use a customized program evaluation and performance measurement tracking system built on the Salesforce platform. It fuses staff activity, partner assessment, constituent behavior and survey response data, allowing for real-time staff engagement with key metrics. Used daily, it allows for easier analysis to inform program strategy and data driven decisions.

For the year ended June 30, 2016, **73 cents of every RAR-MA dollar spent went toward programming**, while serving 12,000 children within Massachusetts. Comparatively, for the year ended June 30, 2015, **71 cents of every dollar spent went toward programming** while serving 12,000 children in Massachusetts.

**Funding:**

RAR-MA is supported primarily through private funding and donations from sources throughout the community.

In addition to recognition from the U.S. Department of Education for Race to the Top, RAR-MA has received significant support from notable foundations such as The Barr Foundation, Amelia Peabody Foundation, Nordblom Family Foundation, Cummings Foundation, and the Irene E. & George A. Davis Foundation.

NOTE 3     SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Organization's financial statements are described below to enhance the usefulness of the financial statements to the reader. The preparation of financial statements in conformity with generally accepted accounting principles 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; however, adherence to generally accepted accounting principles, in management's opinion, resulted in reliable and consistent financial reporting by the Organization.

RAR-MA, INC.  
*dba* RAISING A READER MA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

*(Continued)*

NOTE 3     *(Continued)*

**Basis of Accounting:**

The Organization maintains its books and prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when a liability has been incurred.

**Financial Statement Presentation:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications are related to the existence or absence of donor-imposed restrictions as follows:

*Unrestricted Net Assets* - consists of assets, public support and program revenues which are available and used for activities and programs. Unrestricted net assets represents the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

In addition, unrestricted net assets of the Organization includes funds which represent unrestricted resources designated by the Board of Directors as an operating reserve fund. The operating reserve fund is to be used for strategic growth and/or other initiatives at the discretion of the Board of Directors and for cash flow to meet recommended balances in the operating account. As of June 30, 2015, the Organization had \$320,510 in *Board Designated Net Assets*, all of which were used to fund operations during FY 2016.

*Temporarily Restricted Net Assets* - includes funds with donor-imposed restrictions which permit the donee organization to expend the assets as specified and are satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests, contracts and investment income earned on restricted funds.

*Permanently Restricted Net Assets* - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. For the years presented, RAR-MA did not have any assets of this nature.

**Receivables:**

*Accounts Receivable, Program Services* represents uncollected fees from public schools and other organizations related to RAR program fees, consultation, data analysis and materials.

*Grants Receivable* represents amounts which are due from individual donors and foundations related to grant commitments for programmatic support and the Organization's annual gala fundraising event.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

*(Continued)*

NOTE 3     *(Continued)*

Receivables are classified as current if they are scheduled for payment within one year, and non-current when the expected payment date exceeds one year.

Management periodically reviews receivables to determine if any balances are uncollectible. Management believes that all receivables are fully collectible; accordingly, these financial statements do not contain a provision for uncollectible accounts. Therefore, if amounts become uncollectible, a provision will be established when that determination is made. For the years ended June 30, 2016 and 2015, bad debt expense was \$1,875 and \$65, respectively.

**Property and Equipment:**

Property and equipment purchases in excess of \$1,000 are capitalized at cost, if purchased, or if donated, at fair value at the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method, and is charged against support and revenue over the estimated useful lives of the assets, as expressed in terms of years.

Fully depreciated computers were disposed of prior to June 30, 2015; therefore, as of June 30, 2016 and 2015, the Organization did not have any property and equipment which met the capitalization threshold.

**Revenue Recognition:**

For the years presented, *Program Revenue* includes revenue received from affiliated communities for reimbursed program supplies and expansion, as well as revenue for RAR-MA program research. In addition, some communities pay contracted fees for the train-the-trainer model. *Program Revenue* is recognized as revenue in the period in which the related services are performed. Revenues collected in advance are unearned, and such deferred amounts are presented as *Deferred Revenue* in the accompanying Statements of Financial Position.

**Contributions, Gifts and Grants:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, contributions are required to be recorded as receivables and revenues and the Organization is required to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give.

Contributions, including unconditional promises to give, are recognized as revenues in the period the commitment is received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved, when such amounts are considered material.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

*(Continued)*

NOTE 3     *(Continued)*

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until the restriction expires, at which time temporarily restricted net assets are reclassified to unrestricted net assets.

**In-Kind Goods and Services:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, the Organization maintains a policy whereby contributions of donated goods and services which create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recognized as revenue on the Statements of Activities and are reported as expenses on the Statement of Functional Expenses. Donations of equipment and goods which meet the criteria of the Organization's capitalization policy are capitalized and depreciated pursuant to the policies previously described.

RAR-MA relies heavily upon the services of many individuals and organizations who provide expertise and assistance in the delivery of its program services in addition to administrative support. This volunteer group includes individuals and businesses, as well as extensive efforts and contributions made by the Board of Directors and its various committees. Although extensive, this volunteer effort does not meet the recognition criteria, and therefore, the related service contribution is not reflected in the accompanying financial statements.

**Functional Expenses:**

As required by the *FASB Accounting Standards Codification*<sup>TM</sup>, the Organization allocates its expenses on a functional basis among its various programs and support services. Expenses which can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated on various statistical bases. Supporting services are those related to operating and managing RAR-MA, Inc., *dba* Raising A Reader MA, and its programs on a day-to-day basis.

Supporting services have been sub-classified as follows:

*Administrative* - includes all activities related to RAR-MA's internal management and accounting for program services.

*Fund Raising* - includes all activities related to maintaining contributor information, membership development, grant writing, distribution of materials and other similar projects related to the procurement of funds for the Organization's programs. Fund raising expenses also include the indirect costs of special fund raising events, while direct event costs are netted against the event proceeds. For the years ended June 30, 2016 and 2015, total fund raising expenses, including both direct and indirect event costs, were \$255,923 and \$234,032, respectively.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

(Continued)

NOTE 4 GRANTS RECEIVABLE

The Organization's non-current grants receivable are as follows:

<u>Year Pledge to Be Paid</u>	<u>Balance of Grants Due as of June 30, 2016</u>
June 30, 2018	\$53,334
June 30, 2019	<u>20,000</u>
Total	<u>\$73,334</u>

NOTE 5 FINANCING AGREEMENTS

**Line-of-Credit:**

The Organization has a \$50,000 line-of-credit with Eastern Bank that is due on demand. Interest is payable monthly at 1.00% above the Wall Street Journal prime rate, but not less than 5.00% (5.00% as of June 30, 2016 and 2015). The line is secured by all assets of the Organization. As of June 30, 2016 and 2015, there was no balance outstanding under the line. The line-of-credit is subject to the Bank's annual review.

**Credit Card:**

The Organization has a \$75,000 credit limit with American Express as of June 30, 2016 and this limit was \$50,000 as of June 30, 2015. Interest is payable monthly at variable rates, 19.49% on purchases and 25.49% on cash advances as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, the outstanding balances of \$44,614 and \$25,217, respectively, have been included in *Accounts Payable and Accrued Expenses* in the accompanying Statements of Financial Position.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include unexpended contributions temporarily restricted by donors for the following purposes:

<u>Nature of Restriction</u>	<u>2016</u>	<u>2015</u>
Community Specific Programs:		
Boston	\$258,262	\$262,538
Holyoke	33,546	-
Lawrence	33,333	-
Lowell	33,333	-
Lynn	57,423	52,986
Springfield	105,227	30,692
Parent Ambassador Program	24,132	29,000
Digitization Project	10,000	-
In-Kind Books Receivable	-	<u>27,660</u>
Total	<u>\$555,256</u>	<u>\$402,876</u>

RAR-MA, INC.  
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

(Continued)

NOTE 6 (Continued)

During the years ended June 30, 2016 and 2015, net assets released from temporary donor restrictions by incurring expenses which satisfied the restricted purposes, by the passage of time or by the occurrence of events specified by the donors were as follows for the years presented:

<u>Nature of Restriction</u>	<u>2016</u>	<u>2015</u>
Community Specific Programs:		
Boston	\$109,275	\$ 38,992
Brockton	5,332	10,000
Chelsea/Revere	28,750	34,950
Holyoke	41,954	-
Lawrence	86,417	30,000
Lowell	31,417	5,000
Lynn	54,314	77,013
Springfield	138,965	125,980
Tri-City	25,500	10,000
Parent Ambassador Program	4,868	6,000
In-Kind Books Receivable	27,660	-
Time Restricted	-	20,000
Total	<u>\$554,452</u>	<u>\$357,935</u>

NOTE 7 IN-KIND GOODS AND SERVICES

For the years ended June 30, 2016 and 2015, the following in-kind contributions met the Organization's recognition criteria and were recognized in its financial statements:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Rent*	\$25,200	\$25,200
Books	<u>53,454</u>	<u>27,660</u>
Total	<u>\$78,654</u>	<u>\$52,860</u>

\*The Organization operates its programs in various satellite locations throughout Massachusetts. Most of this satellite space is provided free of charge to RAR-MA, and while not tracked, management estimates the annual value to be approximately \$25,200 for the years ended June 30, 2016 and 2015.

During FY 2016, Raising A Reader MA received a pledge of 2,000 books from Charlesbridge Publishing in December 2015, which was valued by the donating publishing company at \$30,827, using the retail value for each book. In addition, RAR-MA received 1,419 donated books from Houghton Mifflin Harcourt which was valued by the donating publishing company at \$22,627, using the retail value of each book. For FY 2016, RAR-MA received a total of \$53,454 in book donations.

During FY 2015, RAR-MA received a pledge of 3,055 books, which was valued by the donating publishing company at \$27,660, using the retail value for each book. Delivery of the books occurred subsequent to June 30, 2015, and the book donation receivable has been included in temporarily restricted net assets in the accompanying financial statements as of June 30, 2015.

RAR-MA, INC.  
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

*(Continued)*

NOTE 7      *(Continued)*

The Organization entered into a contract with a law firm to provide RAR-MA with pro-bono legal assistance on general business matters, including corporate governance issues, internal controls and procedures, as well as intellectual property matters. As RAR-MA would not have engaged this law firm for these services, while generous in amount, their services have not met the recognition criteria for financial reporting.

NOTE 8      SPECIAL FUND RAISING EVENTS

For the years presented, the Organization held a “Dinner With An Author” event and a literacy breakfast as special fundraising events. The revenue from these fund raising events is reflected on the Statements of Activities, net of direct costs, while costs of direct mail campaigns and indirect event costs are reported on the Statement of Functional Expenses. The following table summarizes the fund raising events:

	<u>Dinner</u>	<u>Breakfast</u>	<u>2016</u>	<u>2015</u>
Gross Event Ticket Sales	\$ 33,900	\$ 9,500	\$ 43,400	\$ 86,900
Auction Proceeds	21,175	-	21,175	48,900
Contributions and Sponsorships	<u>76,122</u>	<u>96,009</u>	<u>172,131</u>	<u>192,126</u>
Total Proceeds	131,197	105,509	236,706	327,926
Less: Direct Event Costs of Events	<u>(37,662)</u>	<u>(10,108)</u>	<u>(47,770)</u>	<u>(54,410)</u>
Net Event Proceeds	<u>\$ 93,535</u>	<u>\$ 95,401</u>	<u>\$188,936</u>	<u>\$273,516</u>

NOTE 9      RELATED PARTY TRANSACTIONS

**RAR National:**

The Organization purchased books and supplies of \$99,614 and \$149,403 from RAR National during FY 2016 and FY 2015, respectively. RAR-MA received \$32,559 and \$43,933 in revenue during FY 2016 and FY 2015, respectively, from RAR National for contracted services, reimbursed supplies and travel costs.

**Executive Director:**

The Executive Director is an employee and serves as a voting member on the Organization’s Board of Directors.

NOTE 10      EMPLOYMENT ARRANGEMENT

Effective March 2015, RAR-MA entered into a co-employment agreement with ADP TotalSource, Inc. (“ADP”) for the purpose of outsourcing the Organization’s human resource function, including employee benefits administration, payroll processing, tax remittance and reporting and workers compensation coverage. Accordingly, ADP became the employer of record, while RAR-MA continues to direct the day-to-day duties and activities of its employees. For purposes of financial and tax reporting, RAR-MA continues to report and track the components of its personnel costs, maintaining the integrity of the specific line items.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

*(Continued)*

NOTE 11 UNEMPLOYMENT COMPENSATION LIABILITY

RAR-MA has elected to finance the benefit costs of unemployment compensation by reimbursing the Commonwealth of Massachusetts (“Commonwealth”) for unemployment compensation paid by the Commonwealth on behalf of the Organization. The election was made under the Unemployment Compensation Amendments of 1976 (Public Law 94-566).

The Organization paid \$8,090 during FY 2015, which represents the cost of unemployment compensation for one terminated employee, plus interest. There were no such costs in FY 2016. The reimbursable amounts have been included in *Payroll Taxes* on the Statement of Functional Expenses for the year ended June 30, 2015. The Organization’s exposure to future claims, as of June 30, 2016, cannot be reasonably estimated; however, there have been no unemployment insurance claims at the time of these financial statements being issued.

NOTE 12 EMPLOYEE BENEFIT PLANS

The Organization maintains a 401(k) retirement plan that covers substantially all employees. Contributions to the plan are based on a percentage of eligible employees’ compensation, subject to certain limitations, and vest over a three-year period. For the years ended June 30, 2016 and 2015, employer contributions to the Plan were \$16,775 and \$14,011, respectively, and are included in *Employee Benefits* on the Statements of Functional Expenses.

Effective May 1, 2015, the Organization elected to provide a Roth 401(k) feature to the plan that covers substantially all employees.

NOTE 13 OPERATING LEASE COMMITMENTS

**Facilities:**

The Organization leases approximately 1,500 square feet of office and program space in Boston pursuant to a lease which expired on December 31, 2009. RAR-MA has occupied the premises on a tenancy-at-will basis since that time. Monthly rental payments were \$1,500 for the years presented.

**Office Equipment:**

During FY 2014, the Organization entered into a sixty-month contract for office equipment. The agreement originally called for monthly payments of \$405 through August 2019 based on an average monthly print quantity with a provision for a quarterly fee assessment for any overages. The lease was amended in January 2014 reducing the monthly payment to \$322 per month for the remainder of the contract with fewer copies per month included. For the years ended June 30, 2016 and 2015, total payments under this agreement amounted to \$3,954 and \$3,864, respectively, and are included in *Printing and Postage* in the accompanying Statement of Functional Expenses.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

*(Continued)*

NOTE 13 *(Continued)*

The future minimum lease obligation arising from this commitment is scheduled below:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2017	\$3,864
June 30, 2018	3,864
June 30, 2019	<u>644</u>
Total	<u>\$8,372</u>

NOTE 14 CONCENTRATIONS

**Cash:**

The Organization is subject to some credit risk through cash balances in checking and savings accounts which are placed with two high quality institutions. At times during the year, the balances in these accounts may exceed the federally insured and other insured limits; however, the Organization has not experienced any losses on uninsured cash balances and management considers credit risk on cash to be low. The Organization had cumulative deposits of \$89,787 and \$135,846 in excess of the \$250,000 federally insured per institution limit as of June 30, 2016 and 2015, respectively.

**Grants Receivable:**

As of June 30, 2016, two foundation grants accounted for 61% of total *Grants Receivable*. As of June 30, 2015, one foundation grant accounted for 49% of total *Grants Receivable*.

**Accounts Receivable, Program Services:**

For the years ended June 30, 2016 and 2015, balances due from one public school accounted for 93% and 56% of total *Accounts Receivable, Program Services*, respectively.

NOTE 15 DECREASE IN NET ASSETS AND MANAGEMENT'S PLANS

The Organization has experienced an overall decrease in net assets of \$240,848 and \$119,100 for fiscal years ended June 30, 2016 and 2015, respectively. Recognizing that any plan that would include a deficit going forward would be unsustainable, Management has implemented a number of steps that resolve the past shortfall (outlined in detail under Management Discussion and Analysis). These include diversified fundraising, development consultants, new pending potential income-generating partnerships, and program reductions of 13% across all staff. Raising A Reader MA has had a strong cash reserve which supported the previous fiscal model. Current plans include replenishing the cash reserve over time without compromising program quality.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

*(Continued)*

NOTE 16 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through October 26, 2016, the date which the financial statements were available for issue, and noted no events which met the criteria.