UNITED THROUGH READING

FINANCIAL STATEMENTS

DECEMBER 31, 2014

Leaf & Cole, LLP
Certified Public Accountants

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FINANCIAL STATEMENTS
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A Partnership of Professional Corporations

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Independent Auditor's Report

To the Board of Trustees
United Through Reading

Report on the Financial Statements

We have audited the accompanying financial statements of United Through Reading, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Through Reading as of December 31, 2014, 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.

Leaf & Cole LLP

San Diego, California
August 4, 2015

UNITED THROUGH READING
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

ASSETS

Assets: (Notes 1, 2, 3, 4 and 5)		
Cash and cash equivalents	$	765,145
Contributions receivable		48,710
Prepaid expenses		35,508
Furniture and equipment, net		2,860
Beneficial interests in endowment funds		52,983
TOTAL ASSETS	$	905,206

LIABILITIES AND NET ASSETS

Liabilities: (Note 1)		
Accounts payable and accrued expenses	$	78,932
Total Liabilities		78,932
Commitment (Note 8)		
Net Assets: (Notes 1, 6 and 7)		
Unrestricted		709,604
Temporarily restricted		71,018
Permanently restricted		45,652
Total Net Assets		826,274
TOTAL LIABILITIES AND NET ASSETS	$	905,206

The accompanying notes are integral part of the financial statements.

UNITED THROUGH READING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Other Revenue:				
Contributions:				
Corporations	$ 604,388	$ -	$ -	$ 604,388
Foundations - Corporate source	196,020	50,000	-	246,020
Individuals	130,949	-	-	130,949
Foundations - Family source	107,350	-	-	107,350
In-kind contributions	45,593	-	-	45,593
Non-profits - Civic groups	32,058	1,400	-	33,458
Net assets released from restrictions	28,864	(28,864)	-	-
Total Contributions	1,145,222	22,536	-	1,167,758
Other Revenue:				
Special event revenue	527,544	-	-	527,544
Investment income	415	763	1,037	2,215
Loss on disposal of furniture and equipment	(767)	-	-	(767)
Total Other Revenue	527,192	763	1,037	528,992
Total Support and Other Revenue	1,672,414	23,299	1,037	1,696,750
Expenses:				
Program Services	1,099,918	-	-	1,099,918
Supporting Services:				
Management and general	166,087	-	-	166,087
Fundraising	158,444	-	-	158,444
Total Supporting Services	324,531	-	-	324,531
Total Progam and Supporting Services	1,424,449	-	-	1,424,449
Special Events	385,222	-	-	385,222
Total Expenses	1,809,671	-	-	1,809,671
Change in Net Assets	(137,257)	23,299	1,037	(112,921)
Net Assets at Beginning of Year	846,861	47,719	44,615	939,195
NET ASSETS AT END OF YEAR	$ 709,604	$ 71,018	$ 45,652	$ 826,274

The accompanying notes are integral part of the financial statements.

UNITED THROUGH READING
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	Management and General	Fund-Raising	Total
Personnel:				
Staff salaries, payroll taxes and benefits	$ 802,596	$ 88,390	$ 139,626	$ 1,030,612
Educational expenses	493	50	79	622
Total Personnel	803,089	88,440	139,705	1,031,234
Occupancy:				
Office rent	14,040	1,418	2,272	17,730
Telephone	8,663	874	1,390	10,927
Transportation/mileage	7,508	756	1,224	9,488
Repairs and maintenance	5,785	584	936	7,305
Services	780	79	127	986
Total Occupancy	36,776	3,711	5,949	46,436
Insurance	4,220	426	679	5,325
Office:				
Printing	11,363	1,146	1,812	14,321
Small equipment	8,109	819	1,313	10,241
Postage/delivery	4,988	502	787	6,277
Office supplies/copies	4,732	478	764	5,974
Bank service fees	4,713	476	755	5,944
Dues/fees/subscriptions	3,207	324	518	4,049
Meals and entertainment	3,194	172	507	3,873
Depreciation	2,964	300	488	3,752
Moving expense	2,153	218	354	2,725
Advertising/promotion	386	39	59	484
Video	356	36	55	447
Business property taxes	169	17	28	214
Total Office	46,334	4,527	7,440	58,301
Professional:				
Accounting and tax	9,238	21,439	1,509	32,186
Consulting service	19,278	1,951	3,162	24,391
Total Professional	28,516	23,390	4,671	56,577

(Continued)

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

UNITED THROUGH READING
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	Management and General	Fund-Raising	Total
Other:				
Program materials	$ 60,924	$ -	$ -	$ 60,924
Travel/lodging	32,048	-	-	32,048
Transportation/mileage	29,127	-	-	29,127
Meals and entertainment	10,991	-	-	10,991
Postage	9,822	-	-	9,822
Professional fees	8,180	-	-	8,180
Small equipment	7,443	-	-	7,443
Printing	6,966	-	-	6,966
Telephone	4,738	-	-	4,738
Video	4,304	-	-	4,304
Dues/subscriptions/books	3,240	-	-	3,240
Miscellaneous	1,772	-	-	1,772
Education	1,428	-	-	1,428
Total Other	180,983	-	-	180,983
Total Expenses Before In-Kind Expenses	1,099,918	120,494	158,444	1,378,856
In-Kind Expenses:				
In-kind expenses	-	45,593	-	45,593
Total In-kind Expenses	-	45,593	-	45,593
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	$ 1,099,918	$ 166,087	$ 158,444	$ 1,424,449

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

UNITED THROUGH READING
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

Cash Flows From Operating Activities:		
Change in net assets	$	(112,921)
Adjustments to reconcile change in net assets		
to net cash used in operating activities:		
Depreciation		3,752
Loss on disposal of furniture and equipment		767
Permanently restricted investment income		(1,037)
(Increase) Decrease in:		
Contributions receivable		(23,710)
Prepaid expenses		24,056
Increase (Decrease) in:		
Accounts payable and accrued expenses		(20,658)
Net Cash Used in Operating Activities		(129,751)
Cash Flows From Investing Activities:		
Proceeds from sale of furniture and equipment		220
Increase in beneficial interests in endowment funds		(1,800)
Net Cash Used in Investing Activities		(1,580)
Cash Flows From Financing Activities:		
Permanently restricted investment income		1,037
Net Cash Provided by Financing Activities		1,037
Net Decrease in Cash and Cash Equivalents		(130,294)
Cash and Cash Equivalents at Beginning of Year		895,439
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	765,145

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

Note 1 - Organization and Significant Accounting Policies:

Organization

United Through Reading (the "Organization"), a nonprofit California Corporation, was originally incorporated July 11, 1989 as Family Literacy Foundation, organized for the purpose of enhancing family relationships and community support of children through reading aloud together. On January 30, 2007, the Organization changed its name to United Through Reading. The Organization provides the opportunity for parents deployed with the military to be video-recorded reading storybooks to their children at home from locations around the world where US Armed Forces are serving.

Significant Accounting Policies

Method of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations

- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

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 disclosures 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.

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The Organization's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Beneficial interests in endowment funds are considered Level 3 assets and are reported at fair value based the fair value of the underlying assets which approximates the future discounted cash flows.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all contributions receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded at December 31, 2014.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of $1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Furniture and equipment	5 years

Depreciation totaled $3,752 for the year ended December 31, 2014.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of furniture and equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Compensated Absences

Accumulated unpaid vacation totaling $40,296 at December 31, 2014, is accrued when incurred and included in accounts payable and accrued expenses.

Investment Income

Investment income consists of the following for the year ended December 31, 2014.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest income	$ 415	$ -	$ -	$ 415
Investment return on beneficial interests in endowment funds	-	763	1,037	1,800
Total Investment Income	$ 415	$ 763	$ 1,037	$ 2,215

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated professional services are recorded at fair value, and totaled $8,515 for the year ended December 31, 2014 and are included in in-kind contributions in the statement of activities.

In-kind contributions of books and supplies used for program services with an estimated fair value of $37,078 for the year ended December 31, 2014, are included in in-kind contributions in the statement of activities.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Organization’s management.

Income Tax Status

The Organization is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is not a private foundation.

The Organization’s Return of Organization Exempt from Income Tax for the years ended December 31, 2014 2013, 2012 and 2011 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use to be cash equivalents.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 4, 2015, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at December 31, 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Beneficial Interests in Endowment Funds (Note 5)	$ -	$ -	$ 52,983	$ 52,983
	$ -	$ -	$ 52,983	$ 52,983

The reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are included in the Notes as indicated above.

Note 3 - Contributions Receivable:

Contributions receivable totaled $48,710 at December 31, 2014 and are due in less than one year.

Note 4 - Furniture and Equipment:

Furniture and equipment consist of the following at December 31, 2014:

Office furniture and equipment	$ 68,637
Less: Accumulated depreciation	(65,777)
Furniture and Equipment, Net	$ 2,860

Note 5 - Beneficial Interests in Endowment Funds:

The Organization has beneficial interests in endowment funds held by San Diego Foundation and Rancho Santa Fe Foundation. The beneficial interest in endowment funds held at Rancho Santa Fe Foundation is held in an investment pool, which is structured for long-term, total return consisting of 45% domestic equities, 16% international equities, 5% in emerging markets, 29% fixed income and 5% in cash and cash equivalents. The beneficial interest in endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of 27% domestic equities, 28% international equities, 17% alternative investments, 16% fixed income, 8% real estate investments and 4% commodities. The activity of the beneficial interests in endowment funds consisted of the following for the year ended December 31, 2014:

	Rancho Santa Fe Foundation	San Diego Foundation	Total
Balance, Beginning of Year	$ 24,045	$ 27,138	$ 51,183
Investment return	1,037	763	1,800
Balance, End of Year	$ 25,082	$ 27,901	$ 52,983

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2014:

Technology	$	50,000
Wounded Warriors		12,287
San Diego Foundation - Unappropriated endowment earnings		7,331
Cameras		1,400
	$	71,018

Net assets in the amount of $28,864 were released from restrictions during the year ended December 31, 2014 by incurring expenses satisfying the purpose restrictions specified by donors.

Note 7 - Endowment Net Assets:

The endowment fund investments of the Organization are held by San Diego Foundation ("SDF") and Rancho Santa Fe Foundation ("RSFF"), in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The investment objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in an endowment fund may fall below the level that the donors require the Organization to retain as a fund of perpetual duration. Permanently restricted net assets held by SDF and RSFF are comprised of:

- The original value of gifts donated to the fund.
- The original value of Organization funds transferred to the fund.
- The original value of subsequent gifts donated to the fund.
- Investment income and realized and unrealized gains and losses on investments.
- Distributions from the fund in accordance with spending policy.

SDF endowment funds are invested in a portfolio of equity and debt securities, which are structured for long-term total return. To provide diversification and to moderate risk, the investments are divided into carefully defined asset classes. Funding available for each asset classification is invested by professional money managers hired by SDF through a competitive process. The investment performance of each money manager is monitored by an independent consultant hired by SDF.

SDF's spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received.

RSFF endowment funds are invested in permanent funds with long-term investment objectives and strategies that will accommodate relevant, reasonable or probable events. Management of the assets is designed to preserve the principal of the funds and provide a source of funds for current operations and programs. The Organization's spending policy allows for annual distributions of equity to 5% of the current value, which includes contributions to the fund, income earned on such contributions and all gains and losses on such funds.

Note 7 - Endowment Net Assets: (Continued)

Endowment composition by type of fund at December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in Rancho Santa Fe Foundation	$ -	$ 25,082	$ 25,082
Beneficial interest in San Diego Foundation	7,331	20,570	27,901
	$ 7,331	$ 45,652	$ 52,983

Changes in endowment net assets for the year ended December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at Beginning of Year	$ 6,568	$ 44,615	$ 51,183
Investment return	763	1,037	1,800
Endowment Net Assets at End of Year	$ 7,331	$ 45,652	$ 52,983

Note 8 - Commitment:

The Organization has an operating lease for office space which expires April 30, 2016. Rent expense totaled $17,730 for the year ended December 31, 2014. The following is a schedule of future minimum lease payments under the lease:

Years Ended December 31	
2015	$ 12,404
2016	4,238
Total	$ 16,642